FEDERAL BUDGET PROCESS STRUCTURAL REFORM

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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CONTENTS

	Page
Hearing held in Washington, DC, July 19, 2001	1
Statement of:	
Bill Frenzel, Co-Chairman, Committee for a Responsible Federal Budget	48
Hon. Robert L. Livingston, Member of Congress (retired)	52
Robert D. Reischauer, President, the Urban Institute	56
Barry B. Anderson, Deputy Director for Federal Budget Analysis, General Accounting Office	78
Hon. Christopher Cox, a Representative in Congress from the State of California	84
Susan J. Irving, Director for Federal Budget Analysis, General Accounting Office	87
Prepared statement of:	
Chairman Nussle	2
Hon. Charles F. Bass, a Representative in Congress from the State of New Hampshire	3
Mr. Frenzel	49
Mr. Livingston	54
Mr. Reischauer	58
Mr. Anderson	80
Ms. Irving	89
Committee for a Responsible Federal Budget: "Recommendations for Reform"	108

FEDERAL BUDGET PROCESS STRUCTURAL REFORM

THURSDY, JULY 19, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:25 a.m. in room 210, Cannon House Office Building, Hon. Jim Nussle (chairman of the committee) presiding.

Members present: Representatives Nussle, Sununu, Gutknecht, Toomey, Culberson, Granger, Spratt, McDermott, Thompson, Bentsen, Price, Clement, Moran, and Moore.

Chairman NUSSLE. Good morning. This is the full committee hearing on the budget with regard to the Federal budget process structural reform. We have three panels today to discuss the very exciting topic of budget process reform. I know it's exciting because the world press is here, led by Bud Newman, and waiting with bated breath for exactly what we will decide and what we will discuss here with regard to budget process reform.

Obviously, I am saying that tongue in cheek, because for many people the process of the budget is probably one of the most frustrating, least understood, easily disregarded and driest topics that you can possibly want to know about. But I can tell by the Members that are present here today, as well as the interest on the part of our panelists, that there are quite a few people who are interested in the way the process of our budget works—in some instances, does not work.

For the past 15 years, Congress has made a few attempts to improve the process with limits on spending and other budgetary controls, but there are still weaknesses that remain within this process. Some of the most common criticisms that you hear about the budget process are inherent weaknesses within the Congressional budget controls, the "emergency" loophole that remains within the process, the insufficient attention to long term obligations within the budget, unrealistic spending levels, lack of control over special projects or pork barrel spending—you hear a number of weaknesses and criticisms from just about every corner of the Congress and every corner of the country.

Despite widespread complaints about these weaknesses, Congress has really had very few opportunities to consider structural reforms. This committee is fulfilling its responsibility to remedy that. It's up to the Budget Committee, who has primary jurisdiction over this issue, to make these decisions and to review this and provide oversight of that process.

Just a couple of weeks ago, we held a hearing, as an example, to examine budgetary enforcement tools such as discretionary spending caps and Pay-As-You-Go rules. Today, we're hoping to build on that by examining ways that you can improve how we make budget decisions. Our aim today is to identify the basic weaknesses in the current budget process and examine various ways to strengthen and improve it. We're going to look at some specific structural reforms of the budget process, such as joint budget resolution, emergency reserve funds and super-majority requirements for waiving budget rules.

We're also going to look at and assess some of the problems posed by doing what we might refer to as ad hoc reforms that would, for example, change the frequency with which Congress makes budgetary related decisions but not the process by which those decisions were made.

I take the job as chairman of this committee very seriously. I know that members, all members on the committee take the role and responsibility of looking at our process very seriously. We are all committed, including Ranking Member Spratt and all the members of this committee, to fixing and repairing the budget process, making it the strongest, most honest, most realistic process that we have possible.

I don't believe that one reform in and of itself can fix what ails us. I think that, I believe the best way to approach these reforms is to look at a number of reforms, try and package them in a realistic vehicle and then attempt to move them through the process.

I will report to you that the administration, in its budget submission, as we may remember, in a title in the budget that was probably the easiest to overlook, because most pored over the numbers themselves, the administration is interested in moving budget reforms through the Congress. Having had the opportunity to meet with and work with Senator Domenici during the first part of this year, I know he has been interested in this. And in my recent conversations with Senator Conrad, he also is aware of and willing to consider reforms in the Senate.

So we have some fertile ground. It may not be the most fertile ever, but it's ground that we have to work with and we should make some attempts.

With that, let me turn it to Mr. Price for any comments that he would like to make on behalf of Ranking Member Spratt.

[The prepared statement of Chairman Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE, CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

The Federal budget process has been widely criticized as unenforceable, inefficient, and preoccupied with the short term.

Over the last 15 years, Congress has made a few attempts to improve the process with limits on spending and other budgetary controls but weaknesses remain.

Some of the most common criticisms of the budget process are:

- Inherent weakness of congressional budget controls
- "Emergency" loopholes
- Insufficient attention to the long term
- Decentralization
- Unrealistic spending levels
- Lack of control over pork-barrel spending.

Despite widespread complaints about these weaknesses, Congress has had very few opportunities to consider structural reforms.

This committee is fulfilling it's the responsibility remedy that.

Just a couple of weeks ago we held a hearing to examine budgetary enforcement tools like discretionary spending caps and PAYGO rules. Today, we are hoping to build on that by examining ways we can improve how we make budget decisions.

Our aim today is to identify the basic weakness in the current budget process and examine various ways to strengthen and improve it.

We're going to look as some specific structural reforms of the budget process, such as a joint budget resolution, emergency reserve funds, and supermajority requirements for waiving budget rules.

We're also going to assess the problems posed by ad hoc reforms that would, for example, change the frequency with which Congress makes budget-related decisions but not the process by which these decisions are made.

I take my job as chairman of this committee very seriously and I know the ranking member, Mr. Spratt shares that feeling. We are both committed to making the budget process the strongest, most honest possible process.

Mr. PRICE. Thank you, Mr. Chairman. I don't have an opening statement and Mr. Spratt will be along shortly.

But I want to commend you for convening these hearings and for helping the institution take account of how the budget process is working and how it might be improved. I think it's useful to look with an open mind at a wide range of proposals that have been made. I also think maybe one of the main uses of a hearing like this could be to point out some of the shortcomings of reform proposals.

You know, we're sometimes tempted to think that a little tinkering of the rules here and there will work wonders. The fact is that we need to write the best rules we possibly can for this process, but we also need to execute those rules responsibly. There's no substitute for responsibly carrying out our duties. I think it's an evasion often, to think that endless tinkering with the rules will be a substitute for that.

So we'll no doubt discover some of the possibilities and some of the limitations of reform, and I think we all should welcome that.

I also want to add a personal note of welcome to our former colleagues, Bob Livingston and Bill Frenzel. Great to have you here. And also Bob Reischauer, who certainly qualifies as a veteran of the Congressional budget wars. Welcome to all of you, we look forward to your testimony.

Chairman NUSSLE. I ask unanimous consent that members be given 7 days to submit written statement for the record. Without objection, so ordered.

PREPARED STATEMENT OF HON. CHARLES F. BASS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW HAMPSHIRE

Mr. Chairman, thank you for convening this hearing today, and I thank the witnesses for taking the time to appear before us.

Many might quip that budget process reform is the best legislative remedy for insomnia, but in fact it is central to our very role as Members of Congress. Responsible budgeting is the single most important job of Congress, and an effective, efficient budget process is vital to accomplishing that job.

There are several important reform proposals before this and other committees, and the House will have an opportunity to debate them later in this Congress.

But in my view and the view of many of my colleagues, there is no more important reform than biennial budgeting, moving to the adoption of two-year budget and appropriation bills.

The case for biennial budgeting is solid:

- It will remove the bulk of budget and appropriations work from election years, thereby reducing runaway spending and political brinkmanship.
- It will encourage more responsible and long-term budget planning by Congress and Federal agencies.

• It will significantly reduce the time wasted on routine and repetitive appropriations work for both Congress and executive agencies, thereby increasing time for better and more detailed review and oversight by Congress, and time for other substantive work by both Congress and Federal agencies.

• Finally, it will provide greater budget stability for Federal agencies and programs, as well as the states.

As I have already noted to the Chairman, I am concerned that the array of witnesses today and the preparation for this hearing might not result in a fair and balanced attempt to discuss biennial budgeting. In an attempt to bring better balance, I am including with my statement some testimony and related materials from a series of hearings before the Rules Committee last year.

I look forward to the debate on budget process reform during this Congress, and look forward to taking important steps forward.

Attachments: Selected testimony and related materials from "Biennial Budgeting: A Tool for Improving Government Fiscal Management and Oversight", hearings before the House Committee on Rules, February 16 and March 10 and 16, 2000.

PURPOSE OF HEARINGS

The purpose of these hearings is to examine proposals from various Members of Congress, the Executive Branch and outside experts on establishing a two-year budget and appropriations cycle in an effort to develop consensus legislation that will streamline the budget process, enhance programmatic oversight, strengthen the management of government programs and bureaucracies, and reform Congress.

Most biennial budgeting proposals would require the President to submit a two-year budget and Congress would consider a two year budget resolution and 13 two-year appropriation bills during the first session of a Congress. The second session would be devoted to consideration of authorization bills and for the programmatic oversight of government agencies.

The Rules Committee's effort reflects the growing, bipartisan interest among members of the House and the Senate in streamlining and consolidating the annual budget process, reducing the number of duplicative votes and allowing more time for programmatic oversight and management to determine whether taxpayers resources are being put to their best use. Interest in biennial budgeting extends beyond the Congress, including the administration and a wide range of outside groups.

The Rules Committee intends to hold several hearings on this topic prior to developing a legislative proposal for House consideration later this year.

BACKGROUND AND LEGISLATIVE HISTORY

The case for biennial budgeting

Since its inception with the Congressional Budget and Impoundment Act of 1974, the Congressional budget process has revolved around an annual ritual of development of a non-statutory budget resolution and subsequent enactment of appropriation bills. In some years, mandatory spending and revenue changes have also been pursued through reconciliation, driven by the budget resolution.

The process of Congressional review of the programs and agencies that comprise the Federal Government is designed to function in distinct stages meeting specific deadlines, including: the submission of a budget by the President at the beginning of a session of Congress; development of the budget resolution by the Congress in the early Spring; passage of 13 appropriation bills by both Houses of Congress before September 30; and, if required in a given year, completion of reconciliation legislation to effectuate changes in mandatory spending programs and revenues. As an overlay to this set of actions, the process envisions that authorizing committees will conduct rigorous, ongoing oversight of Federal programs, embodied in completion of annual or multi-year authorizations.

The reality in recent years, however, has been much less methodical or organized. During the 26 year history of the Budget Act, the deadline for completion of the budget resolution has been met only four times. Since 1950, the requirement for enactment of 13 appropriation bills prior to the beginning of the new fiscal year has been met only three times (1988, 1994 and 1996). As the calendar has wound down each year toward the September 30 deadline, legislation has been cobbled together to ensure funding for agencies and programs at a frantic pace that has crowded out the legislative schedule, preventing orderly consideration of authorization measures and sowing mistrust and confusion among the public.

Likewise, the annual process of developing budgets and justifications has kept Federal agencies on a perpetual budget cycle treadmill, leaving little time to step back and review the management and effectiveness of the programs they run. Exe-

cuting an annual budget requires nearly three years of combined effort by the Congress and the administration. The Federal Government expends an enormous effort to prepare, review, submit and ultimately legislate the budget. The process begins with the President's budget submission, a document that comprises six volumes and more than 2,000 pages. This budget is in turn supported by individual budget justifications for each agency and program, which adds exponentially to the sheer weight and magnitude of the paperwork associated with the budget. For example, the civil works program of the Army Corps of Engineers has a budget of roughly $3.7 billion, which makes up only 0.2 percent of the total Federal budget. The annual budget justification for the Corps alone makes up eight volumes of more than 2000 pages.

With regard to the competition for Members' time and attention, as well as floor time, the annual budget process places great constraints on the workings of Congress and its committees. As a result, the authorization process has suffered—leaving large portions of the discretionary Federal budget unauthorized each year. This means that programs which receive taxpayers' dollars to function each year are not receiving the careful scrutiny they should get from the committees in Congress with the greatest expertise. Every year the Congressional Budget Office (CBO) generates a thick report identifying the programs that are operating without current authorization. In fiscal year 2000, $121 billion in appropriations were provided for 137 Federal programs whose authorizations had expired.

Whereas most of the uncertainty in the Federal budget lies in the area of mandatory spending and revenues, the discretionary accounts for most agencies and programs is actually remarkably stable from year to year. A 1999 CBO analysis indicates that only 4.7 percent of discretionary spending in FY 1998 ($24 billion of the $531 billion appropriated) actually required annual funding as a result of unpredictable funding patterns. From 1997 to 1998, 70 percent of the 872 spending accounts that comprise the discretionary portion of the budget saw change of less than 10 percent.

Proponents of biennial budgeting cite all of these trends and facts as overwhelming arguments in favor of making a fundamental change in the way the Federal budget is developed and implemented. Members on both sides of the aisle, in both Houses of Congress have concluded that the year-end "train wrecks" and gamesmanship that have characterized nearly every September and October in recent memory are damaging to the National and the institution and are unnecessary.

On the other hand, those who do not support biennial budgeting have argued that no process change will alleviate these problems. Further, some have expressed concern that biennial budgeting could actually weaken Congress' control over and oversight of Federal agencies. In addition, the argument has been made that biennial budgeting would disadvantage members of the House with respect to their colleagues in the Senate, providing House members with only "one bite at the apple" of allocating Federal funds during their two-year terms. Lastly, concern has been made about the ability to accurately predict economic conditions for two years, raising the possibility that the current annual process will simply be replaced by a biennial process in name only, as additional supplementals and budget revisions will be necessary during the second year of the biennium.

Legislative history

Ever since the enactment of the Budget Act biennial budgeting proposals have surfaced. The first actual legislative proposal was introduced in 1977 by then Representative Leon Panetta of California (H.R. 9077). Since then, more than 50 different variations have been introduced, 10 biennial-budget related provisions have been reported by a Congressional committee, seven such provisions have passed either chamber and four have been enacted into law. The four that were enacted during the 1980's included directions for submission of plans for implementation of biennial budgeting and an effort to try biennial budgeting in certain areas of the budget like the Department of Defense and the Internal Revenue Service. In addition, Congress has adopted two-year funding cycles for committee funding resolutions—the Senate in 1990 and the House in 1995.

More than 40 Congressional or Special Committee hearings have addressed the topic of biennial budgeting, which has over the years been endorsed or received recommendations for further study by the CBO, OMB and at least five different special task forces or committees. Biennial budgeting was also a key recommendation of the 1993 Joint Committee on the Organization of Congress and the Vice President's National Performance Review in 1993.

In the 106th Congress, several variations have been offered including: H.R. 232 by Representative Ralph Regula (R–OH); H.R. 493 by Representative Cliff Stearns (R–FL); H.R. 2985 by Representative Charles Bass (R–NH) and H.R. 3586 by Rep-

resentative Callahan (R–AL). In addition, Senate Budget Committee Chairman Pete Domenici (R–NM) has introduced S. 92, which has been discharged by the Senate Budget Committee and reported by the Senate Governmental Affairs Committee.

In addition, Rules Committee Chairman David Dreier (R–CA) garnered 245 cosponsors (200 Republican, 44 Democrat and 1 Independent) on H. Res. 396, a resolution expressing the Sense of Congress that a biennial budget and appropriations process should be enacted during the second session of the 106th Congress.

President Clinton recommended biennial budgeting in his FY 2001 budget submission. "The administration anticipates that Congress will continue efforts to reform the budget process during the coming months and urges Congress to consider two budget process changes in particular—biennial budgeting and expedited rescission authority . . . . Biennial budgeting. Reaching agreement on budget priorities for two years would provide greater predictability and planning certainty for program administrators and beneficiaries. Making appropriations that cover two fiscal years would also permit congressional committees to perform their oversight functions in the off-year with less distractions."

The State experience

While the nature of the Federal budget is considerably different than that of state budgets, the experience of state governments can be informative in this area. In 1940, forty-four states practiced biennial budgeting. In 1987, nineteen states practiced biennial budgeting. Twenty-three states currently use a biennial budget cycle, including two that employ a combination of biennial and annual cycles (Kansas and Missouri). The twenty-three states include Arizona, Arkansas, Connecticut, Hawaii, Indiana, Kansas, Kentucky, Maine, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, North Carolina, North Dakota, Ohio, Oregon, Texas, Virginia, Washington, Wisconsin and Wyoming. Nebraska and Connecticut adopted two-year budgeting in 1987 and 1991 respectively and the idea has recently been under consideration more recently in Michigan, California and New Jersey.

Of the 23 biennial budget states, including most recently Arizona, 13 have legislatures that meet every year. In these states, the legislature may open the budget for review and revision in the non-budget year. Twelve states have a biennial enactment of two annual budgets: Arizona, Arkansas, Connecticut, Hawaii, Kentucky, Maine, Montana, Nebraska, Nevada, Ohio, Virginia, and Wisconsin. Nine states have a biennial enactment of one biennial budget: Indiana, Minnesota, New Hampshire, North Carolina, North Dakota, Oregon, Texas, Washington, and Wyoming. Kansas enacts an annual budget but budgets biennially through two annual budgets for 20 regulatory agencies. Missouri has an annual operating budget and a biennial capital budget. Twenty of the twenty-three biennial budget states allow for some form of "rainy day" or emergency contingency fund. Only Arkansas, Kansas and Montana do not. The average number of appropriation bills states use ranges from one bill in about a third of the states to 500 bills in Arkansas. Ten states have either two or three individual bills.

Since World War II many states have shifted from biennial budgeting as their legislatures transformed from biennial to annual sessions. Furthermore, states have also moved away from biennial budgeting due to the unpredictability of Federal funding for many programs that are joint ventures between state and Federal budgets. However, over the last 10 years states have again begun to examine shifts to biennial budgeting.

The Defense Department experiment

The Defense Authorization Act for Fiscal Year 1987 mandated that the President submit a biennial defense budget for fiscal years 1988–1989 and that the Secretary of Defense report "on the implications of moving to a two-year budget." At the time, a two-year budget cycle—authorization and appropriation—for the Pentagon was endorsed by Secretary of Defense Caspar Weinberger, the Congressional Budget Office, leading research institutions, and Senators Sam Nunn, Ted Stevens and Dan Quayle as well as Representatives Les Aspin and Ike Skelton The Congress and the President both favored the change, albeit for different reasons. The major issues that prompted support for biennial budgeting were the large amount of time consumed by the annual budget process; the perceived redundancy in the defense authorization and appropriation processes; the perceived lack of general defense policy review; and the perceived need for more effective oversight of Department of Defense programs.

As required, the Reagan Administration submitted a biennial defense budget in 1987. However, despite the support of both branches, Congress subsequently authorized only part of the two-year budget and appropriated only one year of it. The two year budget that the Pentagon submitted in January 1987 became enmeshed in a

partisan struggle between the Democratic Congress and the Republican President over national priorities. This struggle led to a budget summit in the Fall of 1987 which led to the single year defense appropriation bill for fiscal year 1988.

While Congress did not avail itself of the opportunity to experiment with the implications of a biennial defense budget, the Pentagon did prepare and submit a two year budget. Dr. Robert J. Art, Herter Professor of International Relations at Brandeis University and a research associate at Harvard's Center for International Affairs has produced the only academic evaluation of the Federal experiment with biennial budgeting and its adoption in the Defense Department ("The Pentagon: The Case for Biennial Budgeting," Political Science Quarterly, 1989). Art called this experiment a "half success." Since Congress refused to authorize and appropriate funds on a biennial basis, agency stability was not enhanced. Nevertheless, Pentagon comptrollers and service programmers unanimously agreed that biennial budget preparation was beneficial. Art found that the two-year schedule reduced problems associated with overlapping budget cycles and enabled the introduction of analyses, evaluations, and plans widely viewed as having improved agency operations. He wrote that biennial budgeting allowed Department of Defense officials time "to do things they should have been doing but never could do because of the rat race of annual budgeting."

Art further contended that, although specifying dollar amounts in a biennial plan is difficult, gains associated with better evaluation and planning are not trivial. Biennial budgeting's procurement savings are much more easily calculated—per unit savings could be 50 percent or greater for some weapon systems. In his view, better-quality decisions and more efficient resource utilization are the ultimate benefits of biennial budgeting.

PREPARED STATEMENT OF CONGRESSMAN J. DENNIS HASTERT, SPEAKER OF THE HOUSE

Mr. Chairman, Mr. Moakley, and Members of the Rules Committee—Thank you for asking me to open your important hearings on biennial budgeting.

First I would like to commend the Members of this Committee for their diligent service to the House in moving bills to the floor on an almost daily basis. I understand the committee has strange hours, and you are sometimes tempted to just lock the door, but the House is grateful for your service.

As the House was concluding the appropriations cycle at the end of last year, you Mr. Chairman, along with Chairman Young of Florida, and other members of this committee on a bipartisan basis, introduced a resolution calling on the Congress to enact a biennial budget process in the second session of the 106th Congress.

Mr. Chairman, I commend you for initiating this inquiry and beginning a public dialogue on this subject. The current budget process is broken, and we need to fix it.

Since I became Speaker last year, I have emphasized the need for Congress to do its job under the Constitution. The public respects us when we get our work done on time and in a credible fashion.

When I came to Congress, I was not sure if I would ever see a balanced budget in this town. We are fortunate to live now in a time of budget surpluses. These budget surpluses have been created by hard-working Americans, investors, and are also the result of positive legislation enacted by the Congress and the President in recent years. However, despite the positive budget forecasts, we continue to do business under antiquated budget rules and procedures.

It has become clear that we can't do our jobs with the current cumbersome budget system in place. Every year, the appropriations process consumes a great deal of our time, with numerous and lengthy debates, and often repetitive votes.

Appropriators are obviously consumed with grinding their bills through committee, the floor, the Senate, and seemingly never-ending conferences with the other body.

All too often, these conferences in particular are consumed with non-budget, non-appropriations policy issues. This, of course, soaks up the time of congressional leaders, executive branch budget experts, appropriators, and of course, authorizers whose laws these amendments often effect.

A biennial budget process would free up more time an the calendar for thorough consideration of authorizing measures.

Under House rules, appropriations bills must conform to authorizing legislation. But all too often, we dispense with those rules because the authorization bills don't get enacted. We need to restore the power and the purpose of the authorizing committees.

Mr. Chairman, I served on authorizing committees in the House and I have observed first hand the difficulty of moving bills through the House and getting them considered in the Senate. It is frustrating and hard work. I am sure most authorizing chairmen are used to hearing the phrase, "get in line behind the appropriators" when they ask the leadership for floor time in both the House and the Senate.

If we have a biennial budget process, the authorizing committees won't have to get behind the appropriators anymore.

The House through its committee system must also do a better job of conducting programmatic oversight and management of the vast accounts of the U.S. government. One of the powers of Congress is the power of the purse, and we need to ensure that we have a system in place, which allows us to carefully scrutinize the programs we fund.

Programmatic oversight is a critical feature of Congress funding and lawmaking process. In a bipartisan manner, it allows us to shine the spotlight on how and where the executive branch is spending the money we appropriate.

Biennial budgeting would give congressional committees the ability to devote more time and resources to programmatic oversight. This must be a thorough and ongoing process, and I have found that it is most successful when conducted in a bipartisan manner.

Mr. Chairman, another area that a biennial budget process would improve the current system would be in the area of budgeting for emergencies. I am sure many of the Members here remember the catastrophic Mississippi River flood from 1993, and the difficulty of moving the supplemental appropriations for flood relief through the Congress. Other natural disasters occur, and create pressure to move expensive legislation quickly. Unanticipated military operations, such as our intervention in Kosovo last year, also create the need for supplemental appropriations bills during the fiscal year. Biennial budgeting would force the Congress and the President to plan ahead for unanticipated needs.

Mr. Chairman, the U.S. government should follow the model of 23 states who have a biennial budget cycle,

The President's budget, just two weeks ago, recommended that the Congress enact biennial budgeting. Your sense of congress resolution in support of biennial budgeting has garnered the support of 244 Members of the House, which spans the ideological spectrum and includes authorizers and appropriators.

I urge you to use your expertise in the rules and procedures of Congress, work with the House Budget Committee and with the Senate, continue to work in a bipartisan fashion, and produce a biennial budget package for the House to consider.

Mr Chairman, thank you for the opportunity to appear before your committee today."

PREPARED STATEMENT OF CONGRESSMAN C.W. BILL YOUNG

Mr. Chairman, it is a pleasure to appear before your panel to give you my thoughts on biennial budgeting.

The fiscal year 2001 budget is the 27th budget I will have worked on since I began serving on the Appropriations Committee. During nearly every one of those budgets, my committee was either rushed for time or was late in completing its work or both. We receive the budget in early February. By this time, over one-third of the fiscal year is gone, and we have less than eight months to get all the appropriations bills enacted.

My committee is supposed to receive its overall allocation against which we mark up our appropriations bills by April 15th. I am not going to provide the history of how many times the Congress has been able to do that, but the record is very bad. The reason is that it's hard to do a budget resolution given the conflicting priorities that are inherent in the effort and the fact that we have had a divided government for most of the recent past. Even if we got a budget resolution completed by April 15th, we have less than five and one-half months left to get our work done.

This year we are trying to get the budget resolution done by March 15th. As you can see by the calendar, that would leave still only six and one-half months for appropriations. This would be better, but may not be enough.

I think we need more time than this to develop and enact appropriations bills. This is why we should take a look at how biennial budgeting might help us.

I believe that any biennial budgeting legislation should be developed to provide additional time for Congress to consider appropriations bills. Whether this might mean moving the date for budget submission back, shortening the time for development of a budget resolution, or moving the beginning of the fiscal year ahead or a

combination of all of these, I don't have a preference. I just feel that we need more time for the appropriations process.

While doing this might seem like we're taking more time on appropriations rather than less, which is one of the assumed goals of biennial budgeting, we would really be freeing up legislative time. This is because even though we need more time during a year for appropriations, we would only have a major appropriations effort every other year. The off years would be devoted to oversight and authorizing work plus some fine tuning of the appropriations bills we passed the year before.

While my main reason for looking at biennial budgeting is to get more time for the appropriations process, one of the stated reason of others I have heard has been to give more time for oversight and authorizing activities. One of the reasons appropriations takes so much time is because so many programs are unauthorized at the time we consider appropriations for them. The controversial legislative issues get inappropriately included in appropriations bills rather than authorizing bills. I strongly believe that any biennial budgeting legislation should not only address the budget schedule of the Congress, but also the authorization process. If all that biennial budgeting achieves is a two year appropriations cycle, we will be as bad off with the two year appropriations bills as we are with the one year bills.

We need multi-year authorizations, and we need them in advance of the consideration of appropriations bills in order for biennial appropriations to work. While biennial budgeting will give additional time for oversight by authorizing committees, they must develop and get enacted authorizing legislation with this extra time.

I want this committee to know that the Appropriations Committee also does a lot of oversight. We will continue to do a lot under a biennial budgeting calendar. I think it would be good for the authorizing committees to do more, too. But, they need to use the information they learn to review and modify the permanent legislation that's on the books and to pass authorizations to appropriate. Requirements to bring this about should be included in any biennial budgeting legislation.

I have also heard that biennial budgeting legislation might become the vehicle for other budget process reform. I want to make sure this committee understands that we need reform that will serve the American taxpayer better. I would urge you to be very careful not to load up any biennial budgeting legislation with other controversial budget process legislation. Support for and the success of any biennial legislation may well be contingent on what else, if anything, might be included in this legislation.

For the reasons I outlined, I believe that now is a good time to look at implementing biennial legislation. I urge the committee to hear from a broad range of experts on the matter. Listen to their concerns and see if we can improve the budget and appropriations process.

Thank you for the opportunity to testify.

I would be happy to answer any questions you may have.

PREPARED STATEMENT OF JACOB J. LEW

Mr. Chairman, and Members of the Committee, I am pleased to be here this morning to discuss biennial budgeting and other budget reform proposals.

This administration has strongly supported many reforms to improve the efficiency and effectiveness of the Federal Government. Beginning with the Vice President's National Performance Review in 1993, the administration has sought to reinvent the Federal Government, so that it will work better and cost less.

We have already seen a number of successes. For example, since President Clinton took office, the number of Federal, executive branch civilian employees has dropped by over 360,000 to the lowest level in 39 years. In addition, when the administration took office, the Federal budget routinely ran deficits of well over a hundred billion dollars per year, deficits then projected to continue into the indefinite future. This trend has been decisively reversed, with the Federal budget running a surplus in the last two fiscal years—FY 1998 and FY 1999. Prior to these surpluses, the last balanced budget had been in fiscal year 1969, and the last time that the Federal Government had two consecutive balanced budgets was in fiscal years 1956 and 1957.

The fact that we are running a surplus does not mean, however, that fiscal discipline is no longer needed. To the contrary, fiscal discipline is essential to protect Social Security and strengthen Medicare, so that both will be there in the years ahead. Reducing the accumulated Federal debt will help us to protect these important programs, improve our ability to respond to future fiscal problems or crises, lower both interest rates and Federal interest costs, and encourage continued strong economic growth. Accordingly, the Presidents' Budget for Fiscal Year 2001 proposes

a new framework for the budget process that includes tools for ensuring continued fiscal discipline. These tools include a Social Security Solvency Lockbox to ensure that Social Security surpluses are not used for other purposes, as well as measures to strengthen Medicare and reduce the publicly held debt. In addition, the framework proposes to extend to 2010 both the "paygo" and discretionary spending caps enforcement mechanisms.

In this context, the administration continues to believe that biennial budgeting offers a management tool with potential to contribute to the enhanced performance of the Federal Government. In 1993, Vice President Gore's "Report of the National Performance Review" proposed moving to biennial budgeting. The potential benefits of biennial budgeting were also outlined in testimony presented by two of my predecessors as OMB Director—Leon E. Panetta and Franklin D. Raines—in their testimony before the House Governmental Operations Committee (in 1993), the Senate Rules Committee (in 1994) and the Senate Governmental Affairs Committee (in 1997).

Most recently, the President's FY 2001 Budget states that "Reaching agreement on budget priorities for two years would provide greater predictability and planning certainty to program administrators and beneficiaries. Making appropriations that cover two fiscal years would also permit congressional committees to perform their oversight functions in the off-year with less distraction."

In their testimony in support of biennial budgeting, OMB Directors Panetta and Raines focused on its potential benefits. I would like to first reiterate the substantial advantages of biennial budgeting. In addition, given the serious consideration being given to biennial budgeting this year, it is particularly important to discuss some of the practical considerations for biennial budgeting to succeed.

The potential benefits from biennial budgeting can best be appreciated by considering what happens nearly every fall under the current process. During the months of September and October, Congress and the administration are typically negotiating final appropriations levels for the new year and reaching agreement on one or more continuing resolutions. Simultaneously the agencies and departments of the Executive Branch are beginning the new fiscal year operating under continuing resolutions while also expending great amounts of time developing their budget requests for the subsequent fiscal year.

The current process does not serve us well. It is very inefficient, and the task of budgeting consumes a great deal of time and energy that could be better devoted—by the Congress, the President, and the agencies—to addressing programmatic issues from a longer-term and more in-depth perspective. In sum, the primary potential benefit from biennial budgeting is that, by concentrating budget decisions in the first year of each two-year period, time would be freed up in the second year that could be redirected to management, long-range planning, and oversight.

These are familiar arguments that have helped build the growing interest in biennial budgeting. By contrast, many of the criticisms of biennial budgeting focus on concerns about how it will function in practice. These important concerns must be kept in mind when crafting legislation. Because of growing support for biennial budgeting, I want to spend time on problems that could arise under it, and the challenges that the Congress and the Executive Branch will have to address to ensure that it succeeds.

First, for biennial budgeting to work, the two branches in the first year of the biennium will have to negotiate, and reach agreement on, appropriations that span two years instead of only one. This will be difficult. The problems with the current process result from the difficulties that Congress and the Executive Branch have encountered in negotiating, and reaching agreement, on appropriations that cover one year. Having to negotiate and reach agreement on two years of appropriations will inevitably be more complex.

As a result, the two branches will have to exercise discipline in carrying out negotiations, to ensure that they reach a successful conclusion within about the same time frame as we now do for the thirteen appropriation bills. If the negotiations drag on into November and December, then the time that is saved in the second year of the biennium comes at the expense of having to devote more time to budgeting in the first year. Alternatively, if the two branches give up and enact only annual appropriations, then we will have essentially created a more time-consuming version of the current process.

Second, the two branches would have to ensure that, during the second year of the biennium, the Federal Government remains able to respond to changing and unforeseen circumstances, as well as evolving priorities. It is not reasonable to expect that appropriations could be proposed, and decided upon, in the first year of the biennium, with no changes needed during the next two years. Under biennial budgeting, a midcycle review would have to occur and necessary corrections made. Thus,

there will be a need for the President to have the opportunity to propose orderly changes, and for Congress to provide updates. Should the supplemental become thirteen appropriations bills, the efficiencies of biennial budgeting would be lost. There will also be a need to provide agencies with additional flexibility in how they use their funding, to enable them to address changing conditions and evolving priorities without the need for a legislative change in each and every case.

We should not expect the answer to this challenge to be immediately obvious. It will likely take the two branches some period of time, as they implement biennial budgeting, to learn how the benefits of biennial budgeting can be realized without sacrificing necessary Government flexibility. We should endeavor to meet this challenge. Biennial budgeting will not work if the process either becomes too inflexible or too open-ended. On the one hand, the Federal Government will not be able to carry out its responsibilities properly if it finds itself locked into long-term appropriations that are open to review and revision only once every two years. On the other hand, the potential benefits from biennial budgeting—namely, the time that can be saved and redirected to longer-term reviews and initiatives—will not be realized if in place of the current system with structured annual budget reviews, we produce a system in which the two branches become so accustomed to considering and passing supplemental bills that the task of budgeting becomes an unstructured and unending process.

For biennial budgeting to work, then, the two branches will have to avoid these extremes, and find the proper balance under which the major task of budgeting is carried out once every two years. Furthermore, mid-course corrections should be limited to those changes needed to address changing and unforeseen circumstances, as well as significant changes in priorities. That balance will require cooperation between the branches. Supplemental appropriations bills will require both congressional and presidential action. I would anticipate that additional flexibility for agencies will be accompanied by appropriate congressional consultation and notification requirements. Efforts should be made to avoid a process that enables single parties to block agency activities at a very low level of detail.

Finally, there will also have to be an appropriate transition period before the Federal Government converts over to biennial budgeting. It must be recognized that biennial budgeting will constitute a very fundamental change in how the Federal Government operates. A conversion to biennial budgeting will have to take into account the magnitude of the change that would be required, both in terms of the need to make necessary conforming changes to those laws that presume the proposal and enactment of annual appropriations, as well as in terms of the need for Congress and the Executive Branch to develop and implement new practices for proposing, considering, and enacting biennial budgets. For example, we will need to ensure that an incoming President has sufficient time, upon taking office, to prepare a budget proposal that will cover two years rather than one. Additional time may be necessary for the administration to prepare the first biennial budget proposal as well as for Congress to pass the first set of biennial appropriations bills. We can expect a challenging process in the first year, and the legislation should allow for that.

In order to realize the many potential benefits of biennial budgeting, we must think through carefully how it would work in practice, so that we can successfully meet the challenges that will be involved in carrying out the transition and in implementing the new system. Indeed, careful attention must be devoted to crafting biennial budgeting legislation to ensure that the adoption of biennial budgeting will work in practice, with the intended results.

As I have explained, biennial budgeting has the potential to enable the Congress and the Executive Branch to save time that can be devoted to more in-depth and longer-term reviews and initiatives. By itself, however, biennial budgeting cannot remedy all of the shortcomings of the existing budget process. In order to strengthen the budget process and maintain the fiscal discipline that has brought us so far, we need to also address the budget process proposals presented in the President's Budget.

As I noted earlier, the President's Budget for FY 2001 proposes a new framework for the budget process. The reforms that the administration has proposed will protect Social Security, strengthen Medicare, and ensure continued fiscal discipline. Establishing budget protections for Social Security and Medicare, along with other budget reforms such as extending paygo and the discretionary caps, will strengthen the framework for fiscal discipline for the long term and ensure our continued success in getting our fiscal house in order.

It is also important that biennial budgeting not be used as a vehicle to make other potentially damaging changes in the budget process, such as ending the paygo requirements for tax cuts and new mandatory spending. Finally, it should be noted

that points of order can be used to block non-conforming action, but not to compel agreements on a two-year cycle. It will take cooperation and constructive negotiations to reach a two-year agreement.

Carefully crafted biennial budgeting legislation, particularly if it is combined with the budget process reforms in the President's budget, can be an important tool to improve management of our Government. I look forward to working with you in that process and would be pleased to respond to your questions.

SUBMITTED QUESTIONS AND ANSWERS—THE HONORABLE JACK LEW, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

1. One of the concerns that has been raised with biennial budgeting is the difficulty of projections. In your prepared testimony you mention the need for the President to do a mid-cycle review and to have the opportunity to propose orderly changes and for Congress to have the opportunity to respond. Could you elaborate on how both the President and Congress could do this?

I believe that the mid-cycle review could be largely based on the existing mechanisms that the Executive and Legislative Branches have for identifying areas where spending revisions need to be made, to respond to changing circumstances or evolving priorities. Having enacted appropriations for each year of the biennium, Congress and the President would not need to revisit the entire Budget, as we do now each year. Instead, in the mid-cycle review, the two Branches could focus on those areas where change is needed.

A formal process for a mid-cycle review could serve to help address the increase in supplemental requests and appropriations bills or the need for rescission proposals that would likely result from a shift to biennial budgeting (a concern raised in question 10). Of course, additional supplementals and rescissions could still be considered outside a mid-cycle review, just as they are under the existing annual process. But a mid-cycle review could create an orderly process to minimize the increased burden.

I believe that this would allow both Branches to devote the proper attention to ensuring that the Budget responds to changing circumstances and evolving priorities, while still saving a substantial amount of time that is currently devoted to budgeting and which could be redirected to longer-term planning and management initiatives.

2. In testimony before the Senate Governmental Affair's Committee in 1997, OMB Director Frank Raines with respect to biennial budgeting legislation (S. 261) stated:

"If there is any one area that I have found, since I have been in this job, to be lacking, it is time for the senior managers in the government to focus on actually implementing the laws that Congress has passed. This bill, I believe, would go a long way to focusing the attention of managers on actually performing, as opposed to planning and looking forward to the budget process in subsequent years."

Do you agree that biennial budgeting would allow program managers more time and resources to devote to actually managing programs in the short run and planning for programs in the long run?

Yes, I do believe that biennial budgeting has the potential to allow program managers to spend less time on budgeting, and to devote the time that is saved to longer-term planning and management initiatives.

3. Can you describe the steps involved in the process for developing a President's budget? Congress seems to be constantly working on the budget. Are the agencies and OMB also constantly working on the budget?

Yes, OMB and the agencies are always working on the budget. In fact, we are always—or almost always—working on three budgets at the same time: (1) We are executing the enacted appropriations acts, other spending laws, and revenue laws in effect for the current fiscal year; (2) we are working with Congress as it drafts and passes such laws for the upcoming fiscal year; and (3) we are working on the President's budget for the fiscal year following the upcoming fiscal year.

Here, briefly, are the steps that are involved in developing the President's Budget: (1) in the spring before the President submits the Budget to Congress, OMB—working with other Presidential advisors and within general budget and fiscal policy guidelines established by the President—develops planning guidance for the agencies, to be used in developing their budget requests, which the agencies submit to OMB in September; (2) in the spring and summer, each agency carries out an internal budget process to develop their budget requests; (3) during the summer, OMB and the agencies have a continuing dialogue on budget issues; (4) in September, agencies submit their budget requests to OMB; (5) during the fall, OMB conducts an intensive review of the agencies' requests, resulting in OMB "pass-backs" to the

agencies, and the resolution—in coordination with the President and his senior advisers—of the agency appeals of the "passbacks," with final decisions reached usually by late December; and (6) in December and January, OMB and the agencies carry out the intensive work required to produce the budget documents that are transmitted to Congress on the first Monday in February.

4. One of the perceived benefits of biennial budgeting is the ability of the executive branch to devote more time and resources to the management of programs. As you know, under the current annual budget process, agency heads are required to provide OMB with periodic data updates during the course of a year. Under biennial budgeting how would you envision these internal control mechanisms operating?

If biennial budgeting legislation were enacted, OMB and the agencies would have to review our procedures, to determine what changes to our budgetary reporting procedures would be necessary or desirable. That is among the reasons why a transition period is needed before biennial budgeting becomes fully effective. At the present time, I would expect that OMB would generally maintain the existing internal control mechanisms in their current form.

5. Do you think that under the current budget process there is a preoccupation with budget projections and resources allocation as opposed to actually running programs and reviewing how they are operating?

I would not say that there is a "preoccupation" with budget matters as opposed to program management and review. Making budgetary decisions is a very important governmental responsibility—and so is program management and review. To be effective, the Government needs to do both well. I do believe, though, that budgeting does take up a substantial amount of time, and that the time which has to be devoted to budgeting appears to be increasing over the years. It would be desirable if we could reduce the amount of time that is devoted to budgeting, and redirect this saved time to program management and review.

6. As you know, the current budget process only accounts for changes in mandatory spending and revenues that result from legislative action. OMB and CBO hold the budget harmless for changes in spending or revenue levels caused by administrative, economic or technical changes. Do you think it would be possible and advisable to utilize this existing mechanism (or a modification thereof) as a way of handling such changes in the budget under a biennial process?

I believe that the existing "paygo" system could, and should, continue to be used under a biennial budgeting process. One of the issues that will need to be addressed as biennial budgeting legislation receives further consideration is whether any technical revisions are needed to the paygo system so that it will reflect a biennial budgeting process.

I do not believe, however, that a conversion to biennial budgeting would require that any substantive changes be made to the paygo system. Any proposals for making substantive changes to the paygo system need to be addressed on their own merits.

It is true that administrative, economic, or technical changes are likely to have a greater impact during a two-year period than during one year. A mid-cycle review could help Congress and the administration address those concerns, as well as changes in discretionary programs.

7. In your prepared testimony, you state that a conversion to biennial budgeting will need to take into account "the need to make necessary conforming changes to those laws that presume the proposal and enactment of annual appropriations, as well as in terms of the need for Congress and the Executive Branch to develop and implement new practices for proposing, considering, and enacting biennial budgets." Which exact laws are you referring to here and what new practices for the Executive Branch did you have in mind?

In terms of the conforming changes to laws that will need to be made to adjust to a biennial budgeting process, three such laws are the Congressional Budget Act, the provisions of Title 31 of the U.S. Code that address the budget process, and the Government Performance and Results Act. A review will also need to be made of the Budget Enforcement Act to determine whether any conforming changes are necessary.

In terms of the new practices that will have to be developed and implemented, I believe that this area will be a principal focus of the Legislative and Executive Branches during the transition period from annual budgeting to biennial budgeting. The existing practices are the product of annual budgeting for over two hundred years. It will take some time to "reinvent" these processes so that they will work effectively for a biennial budgeting process.

8. During the hearing there was a detailed discussion of the need for a thorough and well thought out transition plan to be included in any legislative vehicle implementing biennial budgeting. There are a couple of follow up questions on that topic:

How long of a ramp up period do you think is necessary to ensure that both the executive and legislative branches are ready to implement this new process?

Specifically, now long will it take agencies to obtain the ability to prepare, propose and manage two year budgets?

Would you suggest that biennial budgeting be phased in over some set time period with certain portions of the budget moving to a biennial schedule one year followed by others? If not, would you advocate not moving any budget submissions to a biennial schedule until the entire budget is ready to proceed in that direction? If so, would the Department of Defense be the most likely first candidate for such a transition?

If biennial budgeting legislation were enacted this year, I believe that a transition period would be necessary under which the complete transition to biennial budgeting would not occur until the third year of the incoming administration. As I testified, it is a substantial enough task for an incoming administration to develop and submit a one-year Budget proposal soon after the President takes office. It would be too much to expect any incoming administration, upon taking office, to have to develop and submit the Federal Government's first-ever biennial Budget proposal. In addition, to convert from annual to biennial budgeting, OMB and the agencies will need some time to develop and test new procedures, and I expect that the Congress will also need some time to do so as well.

A phase-in will be necessary if the transition to biennial budgeting is to be successful. One possible approach would be to convert certain parts of the budget first, with other parts of the budget converted later. If this approach were adopted, however, it should involve not only the President proposing a biennial budget for the first wave of agencies, but also the Congress passing biennial appropriations for those agencies. Although biennial budgeting has been required for the Defense Department, and the President has proposed biennial budgets, Congress has continued to pass only one-year appropriations. We do not believe that continuing this approach makes sense, and that is why the administration has proposed the repeal of this agency-specific biennial budgeting requirement for the Defense Department.

Another approach for a phase-in is the non-binding, "notional" second-year budget I discussed in my testimony. This would involve a "notional" budget for the second year of the first two-year cycle, even though funds for that cycle would continue to be provided on an annual basis. During the budget process for that second year, OMB, the agencies, and Congress could compare the notional budget to what is actually happening in the "real" process for that year.

A third option would be to begin full-fledged biennial budgeting in the third year, without using selected agencies or another type of formal phase-in. Congress, OMB, CBO, and the agencies could use the two year transition period to prepare their internal budgeting systems and procedures.

There are likely other approaches to the transition to biennial budgeting that merit careful consideration. Determining the best approach and ensuring a smooth transition will require extensive discussions between OMB, the agencies, Congress, and the CBO. These discussions will be necessary both as we develop and consider biennial budgeting legislation and after its enactment.

9. What role would you envision reconciliation playing under a biennial process specifically in the off year?

Reconciliation has come to be used to make substantive changes in mandatory spending and revenue laws, in conjunction with appropriations acts and as part of an overall budget plan. Ideally, under a biennial budgeting process, such changes would be made in the same year that the biennial appropriations are enacted. The Legislative and Executive Branches could devote the second year of the biennium (the off-year) to undertaking a closer programmatic examination of these programs and laws.

However, it is no more realistic to assume that we will never want to make changes in mandatory spending and revenue laws in the second year of a cycle than it is to assume that we will never want to consider supplemental appropriations or rescissions in the second year. If a mid-cycle review suggests the need for changes in mandatory spending or revenue laws in the second year, then reconciliation could be an appropriate vehicle for such changes, just as it is today.

10. There has been concern expressed that a biennial budget process would yield more and larger supplemental spending bills in the non-budget years, as Congress and the administration sought to make corrections or changes to the budget laid out in the prior year. Do you share this concern? What if any procedural technical provisions should we be considering to ensure that the supplemental spending process does not spiral out of control?

As I noted in my testimony, there will be a need for supplemental appropriations during the second year of the biennium. However, supplemental appropriations will

need to be addressed in an orderly manner, so that we don't end up adopting an essentially disordered and endless budgeting process—which would not be an improvement over the current process. One approach that would assist the Branches in reaching this balance would be to have the President submit a mid-cycle budget proposal—in which the President would propose, in a consolidated manner, the changes that he believes need to be made to address changing circumstances and evolving priorities. It will require more than procedural changes, however. To make biennial budgeting work effectively, both Branches will have to proceed in a spirit of comity and will have to be sensitive to the need to ensure a balance between having a budgeting process that is too rigid, on the one hand, and a budget process that becomes endless or chaotic, on the other. This kind of "cultural" approach cannot be legislated or imposed through procedures.

11. Some people consider the issue of biennial budgeting to be one of institutional concern, arguing that by giving up annual action on appropriations the Congress would be ceding power to the Executive branch. What is your assessment? Do you think that agencies would be less responsive to Congress under a biennial budget process?

While I respect the concerns of those who believe that biennial budgeting will shift power between the two Branches, I do not share this concern. I have spent nearly two decades working in the Legislative and Executive Branches. Based on this experience, my belief is that Executive Branch officials are very responsive to Congress. I do not believe that, under biennial budgeting, Executive Branch officials would become less responsive to Congress. That is because biennial budgeting would not alter the fundamental reality that, under the Constitution, Congress has "the power of the purse." Rather than reducing the power of Congress, biennial budgeting could make agencies even more responsive to Congress, because Congress could devote the time that is saved during the second year to increased programmatic review and oversight. Moreover, mid-course corrections would continue to require cooperation between the Legislative and Executive Branches.

PREPARED STATEMENT OF DAN L. CRIPPEN

Mr. Chairman and Members of the Committee, thank you for giving me the opportunity to testify on the idea of converting the annual budget process to a two-year cycle. Under the major proposals for biennial budgeting, the first session of each Congress would be devoted to budget action—the President's budget, the budget resolution, and appropriation and reconciliation bills. The second session would focus on oversight of Federal programs, authorizing legislation (laws that set underlying policies for Federal programs and that are generally a prerequisite for appropriations under House and Senate rules), and legislation needed to adjust budget laws for changing conditions or unforeseen events.

Biennial Federal budgeting is a relatively long-standing idea (specific proposals date back to the late 1970s), and the battle lines over whether it should be adopted have been clearly drawn for some time. Proponents are convinced that devoting a separate session of Congress to authorizing and other nonbudget legislation would improve oversight of Federal programs and ease the stresses under which lawmakers labor to complete action on the budget—especially appropriation acts. Opponents are as firmly convinced that a biennial budget cycle would lead to the use of large supplemental appropriation bills and other ad hoc measures to deal with unforeseen budget and economic changes and would shift the balance of budgetary power to the President.

My testimony this morning will make the following points:

• The success of a biennial budget cycle would depend on whether lawmakers were able to separate budget and nonbudget issues in the way that proponents envision. Various practical hurdles could make separating the two types of issues difficult.

• Biennial budgeting could make two major improvements to the budget process. First, it might give lawmakers and agency officials time to evaluate Federal programs more effectively and help them carry out the requirements of the Government Performance and Results Act of 1993 (GPRA). Second, it could help ease the annual logjam of budget legislation that has contributed to recent difficulties in the annual appropriation process.

• A biennial budget cycle would not come without costs. Members would need to weigh the potential gains from more time for oversight and a more efficient appropriation process against the potential drawbacks of weakened Congressional control of the budget, less accountable Federal agencies, and a budget process that might be less responsive to changing conditions.

THE DIFFICULTY OF SEPARATING BUDGET ISSUES FROM OTHER ISSUES

The idea that Congressional oversight and the budget process will improve under a biennial cycle rests largely on the assumptions that public policy issues can be divided into budget and nonbudget components and that each can be confined to a single session of Congress. A number of practical hurdles could make it hard to separate the two types of issues and thus could jeopardize the benefits of shifting to a two-year budget cycle.

All of the major proposals for a biennial process distinguish between budget and nonbudget issues by specifying a timetable of budget actions in the first session of each Congress. Those actions—submitting the President's budget, adopting the budget resolution, and enacting appropriation and reconciliation acts—would generally parallel the current yearly schedule. The second session would be reserved for authorization laws and for legislation making any necessary adjustments to budget laws enacted in the first session or in earlier years. To enforce the separation between the budget and nonbudget sessions, some proposals would also bar the Congress from considering any authorizing legislation or nonreconciliation (free-standing) revenue measures during the first session until it had finished acting on the budget resolution, all regular (biennial) appropriation acts, and any reconciliation legislation.

Although distinguishing between budget and nonbudget legislation in that way sounds straightforward, it could be confusing and might create new difficulties in the budget process. For example, authorizing legislation can sometimes include significant amounts of mandatory spending. In addition, tax legislation is often considered in the form of free-standing bills outside the reconciliation process. Legislation in those categories raises certain questions. For example, should those types of measures, even if they include significant spending or revenue effects, be confined to the nonbudget session? If the budget effects of such legislation are offset, so there is no net change in the deficit or surplus, should the legislation be considered budgetary or nonbudgetary?

The rules governing reconciliation in the Congress raise additional issues. In general, reconciliation is a process for changing permanent spending and revenue laws to make them conform with the budget resolution. The rules of that process are intended largely to ensure that reconciliation bills are consistent with the directives in the resolution and to expedite their consideration. Those rules, especially in the Senate, make reconciliation bills important legislative vehicles for changing Federal programs and revenue laws. But they may also limit the extent to which broad, structural reforms in Federal programs (such as those dealing with long-term imbalances in Federal retirement or health care programs or certain proposals to reform the tax code) can be made through the reconciliation process. Such reforms may have significant budget effects. If that type of reform legislation may not be included in a reconciliation bill, should it be considered budgetary or nonbudgetary under a biennial budget cycle?

In part, the difficulty of distinguishing between budget and nonbudget issues may be related to the nature of the legislative process. Legislation is divided among Congressional committees with jurisdictions that do not fall neatly into budget classifications. Because biennial budgeting relies on distinguishing between budget and nonbudget issues, lawmakers should carefully evaluate the possible unintended consequences of making that distinction. One possible outcome is that the legislative and budget processes could become more rigid if rules to enforce the distinction were put in place.

POTENTIAL IMPROVEMENTS UNDER A TWO-YEAR BUDGET CYCLE

Proposals for biennial budgeting have been prompted largely by Members' understandable frustration about the extent to which budget issues have come to dominate the annual legislative agenda. Increasingly, Members worry that budget matters are crowding out other, equally important duties, such as Congressional oversight. As a result, they say, the Congress either ignores those other duties or conducts them as part of its annual action on appropriation bills. But in their view, the rigors of annual budgeting tend, first, to make oversight conducted at that point more ad hoc and less effective and, second, to bog down appropriation bills with unrelated and controversial issues that ought to be considered carefully, systematically, and separately.

IMPROVING OVERSIGHT

Some evidence appears to support the view that Congressional oversight by authorizing committees has suffered. Over the past five years, the total amount of un-

authorized appropriations (appropriations for which the applicable authorization law has expired) has averaged about $100 billion annually. That amount-which represents nearly one-fifth of total discretionary budget authority—is spread over some 100 different laws covering the jurisdictions of nearly every authorizing committee.

Several factors are likely to have contributed to the problem of unauthorized appropriations. Prominent among them is the difficulty that lawmakers face in reaching a consensus about the controversial issues that often arise during Congressional action on expiring authorization laws. A biennial budget cycle would not make it any easier to reach a consensus on those issues. But it might make it easier for lawmakers to separate policy and funding decisions and thus increase opportunities for authorization laws to be enacted in a timely fashion.

The Government Performance and Results Act adds an important element to the debate about possible improvements to Congressional oversight under a biennial budget. Under GPRA, Federal departments and agencies are required to establish strategic goals, performance plans, and performance measures for Federal programs. Law-makers are supposed to use that information to evaluate those programs and to allocate Federal resources in the budget process. A governmentwide performance plan has been included in the President's budget for the past three years. By March 31, 2000, Federal agencies are required to submit the first reports that evaluate their progress toward meeting the performance goals set out in their 1999 performance plans.

With the GPRA framework of reporting and other requirements nearly phased in, lawmakers now face the issue of how best to integrate that information into the budget process. One question involves whether the annual budget cycle provides the best setting for making effective use of GPRA performance data. Although the law's ultimate goal was to have performance data used routinely in the budget and appropriation processes, lawmakers may find it easier to employ that information if they have a session of Congress devoted principally to oversight and evaluation. In addition, authorizing committees have an important role in evaluating and using agency performance data and may be better able to apply that information in a nonbudget session as they craft authorizing statutes.

IMPROVING THE APPROPRIATION PROCESS

In some respects, biennial budgeting would not depart significantly from current practice. Although lawmakers act on the budget annually, most spending (principally for entitlement programs and net interest) and revenues flow from laws that are either permanent or remain in effect for more than one fiscal year. In the appropriation process, however, lawmakers both act and provide funds one year at a time. Thus, a biennial budget cycle would be likely to have its greatest effect on that process.

Lawmakers have grown increasingly concerned about the difficulties and delays that accompany the appropriation process, particularly during the past two years. Congressional action on most of the appropriation bills for 1999 and 2000 occurred behind schedule, with final action completed well after the beginning of the fiscal year. Most of the major appropriation bills for those years were incorporated into a single consolidated appropriation act, which included numerous authorization and policy provisions generally unrelated to the routine and ongoing appropriations for most Federal agencies.

Those problems are not new. As with the difficulties in enacting authorization laws, other factors—especially underlying political disagreements—may be the root cause. But a biennial cycle of regular appropriations could give lawmakers and other officials enough time to resolve those disagreements and could make the appropriation process smoother and more efficient.

In particular, biennial budgeting could have two broad benefits for the appropriation process. First, if lawmakers were successful in separating budget and nonbudget sessions and in enacting authorization laws in a timely fashion, they might be less likely to add controversial policy riders to appropriation measures. Second, oversight during the appropriation process might actually improve. For example, the appropriations committees could focus more closely in the nonbudget session on how appropriated funds were being spent, which could help them prepare for the next two-year appropriation cycle.

POTENTIAL PROBLEMS OF A TWO-YEAR BUDGET PROCESS

Acting on the budget every other year would have drawbacks. Members would need to weigh the potential gains described above against a potential decline in Congressional control of the budget, the effect of using outdated budget information, and a less responsive budget process.

Although biennial appropriations might have payoffs in improved planning for Federal agencies and more time for Congressional oversight, they might also diminish Congressional control of spending because lawmakers would have half as many opportunities to adopt regular appropriation bills. Moreover, Congressional oversight that is divorced from the purse strings may be less effective than oversight that is conducted through annual appropriation hearings linked to agencies' funding requests.

Certain appropriated programs with stable or predictable funding patterns might be good candidates for two-year appropriations. But the current annual process already accommodates multiyear appropriations. Also, the benefits to the executive branch of having more time to plan and prepare appropriation requests could be offset by the uncertainty of making those requests for a longer period. Consequently, agencies might be more likely to need or request supplemental appropriations.

Although most spending and revenue laws cover multiyear periods, annual action may be needed to ensure the use of up-to-date budget and economic information. If the economic and technical assumptions underlying the two-year budget were not revised before the end of the biennium, the information and estimates that policymakers used would become less reliable. Consequently, budget enforcement procedures and cost estimates for pending legislation would be distorted. That problem could be alleviated by including procedures in the budget resolution that would allow budget totals and allocations to be updated automatically for changing conditions. But if conditions changed significantly, such an automatic process might lead to far different budget outcomes than the resolution originally recommended.

Considering budget matters every other year could also make the budget process less responsive. For example, if disagreement about budget policies produced a stalemate beyond the first year of a biennium, the Congress and the President would have no formal mechanism for carrying on the budget debate the following year. Policymakers, knowing they were acting under a two-year cycle that called for budget action only in the first session, might be more inclined to resolve budget conflicts before that session ended. But if they did not resolve those conflicts at that time, they would have to pursue the budget debate in the next session in an ad hoc manner. A budget process that is less responsive could be particularly problematic in a period of rapid changes in the budget and economic outlook—such as those that have affected projections of budget surpluses for the past three years or so.

Finally, it is unclear whether the root cause of the problems cited by proponents of biennial budgeting is the annual budget timetable or other factors that would be largely unaffected by a switch to two-year budgeting. For most of the past two decades, the administration and the Congress have been controlled by different political parties, making basic agreement on major issues, including budget issues, difficult to reach. That disagreement, not the budget cycle, may be the biggest hurdle to smoother budget deliberations in the Congress.

CONCLUSION

Supporters of biennial budgeting are increasingly concerned that the requirements of the annual budget process are overwhelming policymakers and public officials. They argue that the seemingly incessant demands of that process detract from other functions of government—such as long-range planning and oversight—that are equally, if not more, important. If budget and nonbudget issues can be separated in the legislative process, biennial budgeting could help ease those problems, improve oversight, and relieve the pressures on the appropriation process. However, potential gains from changing to a two-year cycle could be offset by the loss of Congressional control over the budget and by the effects of changing conditions on the budget process.

DAN L. CRIPPEN, DIRECTOR, THE CONGRESSIONAL BUDGET OFFICE, RESPONSES TO QUESTIONS

1. "How would a biennial budget process impact upon the work done by CBO? What changes would need to be made in order to ensure that CBO could provide proper support to Congress in a biennial process?"

In general, a biennial budget cycle is unlikely to have a major effect on CBO's duties, responsibilities, or workload. CBO's work is closely tied to that of the Congress; as long as the Congress continues to meet and consider legislation annually, our workload would not change appreciably. For example, CBO would continue each year to prepare its annual budget and economic outlook report and would continue to update that report in the summer. CBO would also continue to prepare cost estimates on all reported legislation, scorekeeping reports of legislative action affecting the budget, and analyses of various budget and program issues as requested.

Moreover, although the Congress would adopt a budget resolution only in the first session, it would probably consider revisions or adjustments to the resolution during the second session that could require substantial assistance from CBO. CBO would also continue to review and evaluate the administration's budget submissions, including any midcourse budget proposals or reestimates.

In sum, it does not appear that a biennial budget process would necessitate any changes at CBO to ensure that the agency continued to support the Congress in its budgetary deliberations.

2. "Taking your point about the potential difficulty in separating budget and non-budget issues to fit the cycles of a biennial budget process, what specific criteria and enforcement mechanisms would you suggest should be adopted to ensure that a biennial system could be made to work in practice?"

If most lawmakers were firmly committed to a biennial budget process, additional rules to ensure that it worked would not be necessary. One potential benefit of a biennial budget cycle is that it could help smooth the appropriation process by providing additional time for lawmakers to consider separately and enact the authorizing legislation and other matters that have sometimes delayed consideration of major budget legislation, especially appropriation bills. If lawmakers choose not to use a biennial budget process in that way, additional rules seem unlikely to force that separation or to make the legislative process smoother.

3. "Some critics of biennial budgeting have suggested an interim step of applying the two-year process to only certain agencies or programs as a sort of 'pilot' project. Do you see any value in taking this incremental approach? What would be the pros and cons of implementing biennial budgeting on a case-by-case basis?"

A pilot-project approach to biennial budgeting is unlikely to yield the benefits sought from a complete conversion to a two-year budget cycle. If the budget process remains on an annual cycle generally, then two-year appropriations for certain programs would essentially provide regular appropriations for the first year and advance appropriations for the second year. Lawmakers would continue to consider budget and appropriation legislation for most other activities on an annual basis.

Such an experiment might garner useful information from executive branch agencies about the advance planning needed under a two-year system. But it might not give the Congress the additional time it is seeking for program oversight and review.

4. "There has been concern expressed that a biennial budget process would yield more and larger supplemental spending bills in the non-budget years, as Congress and the administration sought to make corrections or changes to the budget laid out in the prior year. Do you share this concern? What if any procedural/technical provisions should we be considering to ensure that the supplemental spending process does not spiral out of control?"

Whether lengthening the budget cycle to two years would cause greater reliance on supplemental appropriations is not clear. On the one hand, appropriating for two years at a time increases the chances that unforeseen events and demands on spending from other sources will overtake appropriations enacted over a year earlier. Those factors make supplemental appropriations a routine part of the annual appropriation process and are likely to be even more prevalent in a longer budget cycle. On the other hand, a two-year appropriations cycle might improve the ability to plan and to manage resources, thereby enhancing efficiency and spending control.

There are other factors unrelated to the length of the budget cycle that may also create conditions that give rise to supplemental appropriations. For example, in recent years the size of supplemental appropriation acts may have been influenced by the relatively restrictive limits on total discretionary appropriations set forth under the Balanced Budget Act of 1997. Those limits have prompted lawmakers to rely increasingly on emergency appropriations, which are effectively exempt from the limits, to maintain higher levels of total appropriations than the limits would have allowed. Substantial amounts of those emergency appropriations have been included in supplemental appropriation laws.

In making procedural changes to control supplemental appropriations, whether in a biennial cycle or in the current annual process, lawmakers should be careful to balance the need to respond quickly to genuine emergencies or other unexpected events with the need to control spending. One possible method for controlling such appropriations would be to create a strict statutory definition of "emergency" that could be used to certify the types of provisions that may be deemed emergencies. Of course, that change could be implemented in either a biennial or an annual cycle of appropriations.

5. "Some people consider the issue of biennial budgeting to be one of institutional concern, arguing that by giving up annual action on appropriations the Congress would be ceding power to the Executive branch. What is your assessment? Do you

think agencies would be less responsive to Congress under a biennial budget process?"

It seems unlikely that agencies would be less responsive to the Congress simply because they would be requesting regular appropriations every other year. Also, a biennial budget cycle, by setting aside time for Congressional action on oversight and authorizing legislation, might relieve the appropriation process of time-consuming debates on substantive policy issues, which could actually improve Congressional control of spending.

6. "As a budget technician, you are in a good position to judge whether there would be tangible savings in terms of time and effort on the part of the people whose job it is to put together budgets and implement them. Do you subscribe to the view that biennial budgeting would save significant time and resources which then could be applied to better program management and long-term efficiency?"

Yes, savings of time and resources are likely under a biennial budget process, although the extent of those savings is unclear. Although the duties of CBO are unlikely to change significantly, the resources used for budget preparation in the Executive branch could be reduced dramatically. Those savings would be partially offset by the need to monitor spending, revise budget estimates, and modify budget proposals and laws as conditions change during the two-year cycle. However, if a two-year budget cycle enabled program managers to devote more attention to reviewing and evaluating Federal programs, programmatic cost savings or other efficiencies could also be achieved.

7. "In your prepared testimony you raised the issue of updating a two year budget for changing economic and budget conditions. You suggest that the problem could be alleviated by including procedures in the budget resolution that would allow budget totals and allocations to be updated automatically for changing conditions. Would you elaborate more on what type of procedures you are suggesting?"

Such procedures could be patterned after the so-called reserve fund provisions now used to revise the budget resolution under specified circumstances. In general, reserve fund provisions empower the Chairmen of the House and Senate Budget Committees to revise budget resolution totals and spending allocations to committees under certain conditions—for example, when legislation is reported in a particular policy area or for updated budget projections. In some cases, the extent to which the Congress may consider certain spending or tax initiatives is contingent on those reserve fund adjustments. Such a process might be useful for updating a two-year budget resolution for new budget estimates or other changes.

8. "As you know, the current budget process only accounts for changes in mandatory spending and revenues that result from legislative action. OMB and CBO hold the budget harmless for changes in spending or revenue levels caused by administrative, economic or technical changes. Do you think it would be possible and advisable to utilize this existing mechanism (or a modification thereof) as a way of handling such changes in the budget under a biennial budget process?"

A biennial budget cycle could be meshed with the current mechanisms and practices for ensuring that budget legislation is consistent with the budget levels and other requirements that are enforced in the budget process. However, in a biennial budget cycle, it might be advisable to allow the underlying baseline used for budget enforcement to be adjusted for current economic and technical data in the second year of the cycle. Otherwise, spending or revenue legislation considered in the second session of a Congress would be based on less timely information and estimates of the legislation's budgetary effects could be less accurate.

9. "During the hearing, there was a detailed discussion of the need for a thorough and well thought out transition plan to be included in any legislative vehicle implementing biennial budgeting. There are a couple of follow up questions on that topic:

How long of a ramp up period do you think is necessary to ensure that both the executive and legislative branches are ready to implement this new process? Specifically, how long will it take agencies to obtain the ability to prepare, propose and manage two year budgets? Would you suggest that biennial budgeting be phased in over some set period with certain portions of the budget moving to a biennial schedule one year followed by others? If not, would you advocate not moving any budget submissions to a biennial schedule until the entire budget is ready to proceed in that direction? If so, would the Department of Defense be the most likely first candidate for such a transition?"

The major proposals for biennial budgeting call for the President to submit a budget and for lawmakers to act on budget legislation during the first session of each Congress. If a biennial budget process were to become law at the end of the 106th Congress, it might be advisable to use the 107th to phase in the new cycle, delaying its full implementation until the beginning of the 108th. During the 107th Congress, agencies could begin preparing budgets, especially appropriation requests,

for two-year periods. (For example, they could include second-year requests for planning purposes in the budget submitted during the second session of the 107th Congress.) At the same time, Congressional committees could begin to identify any problems or issues involved in fully implementing two-year budgets and appropriations and start to modify the cycle of expiring authorization laws to make them conform to a two-year budget cycle that would begin with each new Congress.

10. "What role would you envision reconciliation playing under a biennial process specifically in the off year?"

All of the major proposals for a biennial budget call for any reconciliation legislation to be enacted in the first session of each Congress. Because such legislation is a major vehicle for carrying out the policies reflected in the Congressional budget resolution, it would seem to make sense to consider reconciliation legislation as soon as possible after the resolution is adopted. However, if Congressional action on reconciliation legislation was pushed back into the second session to spread out the budget workload facing the Congress—or if it was simply delayed until that time—the budget baseline and the budget resolution levels, amounts, and reconciliation instructions would need to be adjusted for current economic and technical budget data.

PREPARED STATEMENT OF THE HONORABLE LEE HAMILTON

Mr. Chairman, Mr. Moakley, Members of the Rules Committee—thank you for giving me this opportunity to offer you my thoughts on biennial budgeting.

First, let me commend you for holding these hearings. I believe biennial budgeting holds real promise for improving the operations of government. I am pleased that its potential is being examined closely by this committee. I am also encouraged by the support that has been given by Members on both sides of the aisle to Chairman Dreier's sense of the House resolution in support of biennial budgeting.

In 1993, I served as co-chairman with Chairman Dreier, as well as Senators David Boren and Pete Domenici, on the Joint Committee on the Organization of Congress. One of the main recommendations we made for reforming the Congress was to adopt biennial budgeting. Although that recommendation was not then adopted by Congress, I believe that it remains sound.

There are both pluses and minuses to biennial budgeting, but overall I think it would improve government operations—primarily because of its potential to free up Members' time for important work that is now being squeezed out by competing pressures. Biennial budgeting is not a cure-all for every obstacle to the efficient functioning of government. We must not have exaggerated expectations of what it can do. However, moving to biennial budgeting would create greater budget and program stability, strengthen programmatic oversight and promote more long-range strategic thinking.

By not having to pass a new budget every year, Congress would have more time to review how laws are working, and the executive branch and state and local governments would have a more stable budget environment to plan and carry out their programs. During the second year of a two-year budget cycle, Congress would still have to spend some time adjusting or supplementing the budget for changing conditions or unforeseen events, but overall it would be able to focus more on identifying problem areas in government operations and looking ahead to the policy needs of the next biennium and beyond.

The current appropriations process is too cumbersome and time-consuming. Senate Majority Leader Lott has estimated that Congress is now spending two-thirds of its time on the budget and appropriations. That is simply too much. It seems Congress is in a perpetual budget cycle, with budget crises nearly every year. The deadlines for the budget process are rarely met—Congress has met the deadline for completion of the budget resolution only four times during the 26 year history of the Budget Act—and appropriations bills end up being dumped into enormous omnibus bills which are, from the standpoint of good process, if not content, abominations. The authorization committees are often simply bypassed. Members also have little time for non-budget activities because Congress is working a reduced schedule, with most congressional business taking place only between Tuesday and Thursday for much of the year. This process does not serve the American people well.

Biennial budgeting would help remedy some of these problems. It would allow the authorizing committees—where the greatest policy expertise lies—to regain some of their lost influence. It would give Congress more time in the second year to resolve policy differences, fostering a smoother budget process in the subsequent year and potentially reducing the number of controversial policy riders attached to appropria-

tion measures. These changes could markedly improve the effectiveness and efficiency of Congress.

For the executive branch and state and local governments, biennial budgeting would mean more budget predictability and program stability, enabling them to use their funding more efficiently, focus more on program implementation and plan farther in advance. The levels of the vast majority of Federal funding are predictable. They do not change dramatically from year to year. Biennial budgeting would reduce the amount of documents agencies must produce and the number of times administration officials must testify to justify their budget requests.

Some opponents of biennial budgeting argue that it would take control over programs away from the Congress in the second year and thereby reduce government accountability. But Congress would retain the capacity to enact supplemental spending measures in the non-budget year to deal with unforeseen problems. This flexibility would allow Congress to react to new developments and remain in control of the purse strings. Moreover, if oversight is performed rigorously, Congress will be monitoring the operations of government agencies and programs more closely than it currently does.

So let me turn to two of the most important reasons for adopting biennial budgeting: to strengthen congressional oversight and encourage long-term strategic thinking.

OVERSIGHT

Oversight of how effectively the executive branch is carrying out congressional mandates is an enormously important function of Congress. It is at the very core of good government. Congress must do more than write the laws; it must make sure that the administration is carrying out those laws the way Congress intended.

That is why I was frequently frustrated during my years in Congress by the small amount of time available for conducting oversight. On many committees I served on, I would have liked to do much more oversight, but we simply did not have time for it because of the various other demands of the job. As the pressures of fund-raising, media attention, and working out the budget and appropriations have increased over the years, programmatic oversight has declined. Biennial budgeting would not take away all of these competing pressures, but it would give committees more time overall to pursue rigorous oversight of programs and agencies. Congress would be able to focus greater attention on how Federal funds are being spent.

Oversight has many purposes:

- to make sure programs conform to congressional intent;
- to ensure that programs and agencies are administered in a cost-effective, efficient manner;
- to ferret out (in the oft-heard phrase) "waste, fraud, and abuse";
- to see whether programs may have outlived their usefulness;
- and to compel an explanation or justification of policy.

Oversight can sometimes get off-track—becoming excessively partisan and focused on personal investigations and possible scandals rather than programmatic review. But when done properly, oversight is one of the most important and effective tools of Congress.

Oversight can protect the country from the imperial presidency and from bureaucratic arrogance. It can expose and prevent misconduct, and maintain a degree of constituency influence in an administration. The responsibility of oversight is to look into every nook and cranny of government affairs, uncover wrongdoing and put the light of publicity to it.

Congress needs a large number of oversight methods to hold agencies accountable because different methods have their own strengths and weaknesses. Periodic reauthorization, personal visits by Members or staff, review by the General Accounting Office or inspectors general, subpoenas, and reports from the executive branch can all be useful. The authorization, appropriations, and governmental affairs committees, as well as special ad hoc committees, can all play important roles in oversight.

In many ways Congress underestimates its power in oversight. Agencies start to get a little nervous whenever someone from Congress starts poking around, and that is probably to the good overall. Federal bureaucracies do not stay on their toes unless they expect review and oversight from Congress.

My personal belief is that conducting oversight is every bit as important as passing legislation. President Woodrow Wilson thought that "the informing function of Congress should be preferred even to its legislative function." Our founding fathers clearly recognized that "eternal vigilance is the price of liberty".

A strong record of congressional oversight—of "continuous watchfulness"—will do a lot to restore public confidence in the institution. It will show that Congress is

taking its responsibilities seriously and is able to work constructively to improve government performance.

That is why I am encouraged by the efforts of Speaker Hastert, Chairman Dreier and others to have the House return to its traditional programmatic oversight functions.

Moving to biennial budgeting would give oversight a significant boost by freeing up the committee workloads over the two-year cycle.

STRATEGIC THINKING

Biennial budgeting would also free up time that could be used by Congress and the executive branch to focus more on long-term strategic thinking—examining the challenges our country will face over the coming decades.

Some years ago a careful observer of Congress advised me that the worst thing about congressional service was that Members never have time to put their feet on their desks, look out the window, and think about the long-range needs of the country. I have come to appreciate the wisdom of that remark.

The Federal Government simply does not do enough long-term thinking. It may be unavoidable that policymakers focus mainly on urgent problems, headlines and crises, but far too little attention is given to challenges that lie just over the horizon. Federal programs that involve long-term investments—for infrastructure, research and development, and education—are dwarfed by Federal spending for current needs and consumption. In contrast to the strategic, long-term planning of most businesses, there is typically little systematic discussion in Congress of the most important long-term challenges facing our National.

These challenges are numerous: What are our long-term national security needs? How can we maintain a prosperous and open economy well into the future? How can we make sure Americans will have the skills they need to succeed in that economy? What long-term environmental challenges—both domestic and international—will we face? What problems will be posed by the growth of information technology, biotechnology and genetic engineering? How can we ensure that we will continue to have adequate food and energy supplies? What will America's changing demographic make-up—which, 25 years from now, will include a much higher proportion of older Americans, Latinos and other nonwhites—mean for our political, economic and social life? What will be the consequences of continued or growing global economic inequality?

Certainly some work is done by Congress—and done well—on long-term issues. Committees hold hearings on topics ranging from human cloning to the babyboomer Social Security crunch to future terrorist threats. But overall, I believe Congress should be doing much more. If we fail to adequately address these long-range questions, we may miss opportunities and overlook steps we should be taking today that could make tomorrow's problems far more manageable.

Looking carefully at the challenges of the future is not esoteric speculation or crystal ball-gazing. Many future challenges are predictable. I recently met with one of our country's top demographers, who laid out a variety of changes that are likely to flow from the increased immigration of recent decades. The CIA, recognizing the importance of looking at future challenges, is now working to free up more of its analysts' time for future studies, and is reaching out to tap the long-range thinking of more academics and private sector experts.

Congress does have some stipulations for long-term thinking. Since 1974, the House has required committees to "undertake futures research and forecasting" on matters within their jurisdiction. The Congressional Research Service and the General Accounting Office are authorized to undertake anticipatory research.

But Congress remains predominately focused on short-term needs, in part because the one-year budget cycle leaves congressional committees with little time to look ahead.

To bolster long-range strategic thinking, it might be helpful to require committees to report regularly on their work looking at emerging trends and long-term challenges. It might also be helpful to require the President to report every few years on the critical challenges facing the Nation in future decades.

One of the initiatives I have begun at the Wilson Center is to develop a coordinated focus on examining future domestic and international challenges. As we launch this initiative, we will be recruiting scholars to help identify the emerging challenges most in need of attention and the top thinkers and practitioners who can propose approaches and solutions to them. The Center would be pleased to be of help to Members and congressional staff on these issues in any way it can.

I also encourage Congress to make use of the great resources of the Congressional Research Service, which can provide excellent forecasts of future trends and chal-

lenges. [Attached to this testimony as an example of this kind of forecast is a copy of an outstanding report on future trends written by Walter Oleszek of CRS in 1998.]

The point of this kind of long-term thinking is not that the Federal Government could, or should, resolve all of America's long-term problems, but that we should at least be considering these issues and examining how best to deal with them.

Moving to biennial budgeting would allow Congress to focus on America's future challenges much more than it currently does.

CONCLUSION

Biennial budgeting will not resolve all of the problems in the budget process and the operations of government, but I believe it will improve the effectiveness of government by providing a more stable budget environment and allowing for a greater focus on oversight and long-range thinking.

I look forward to answering any of your questions.

Thank you.

SUBMITTED QUESTIONS AND ANSWERS—THE HONORABLE LEE HAMILTON, DIRECTOR OF THE WOODROW WILSON CENTER

As I mentioned in my testimony, I strongly believe that moving to biennial budgeting would give oversight a significant boost by freeing up the committee workload over the two-year cycle.

Oversight of how effectively the Executive Branch is carrying out congressional mandates is an enormously important function of Congress. Congress must make sure that the administration is carrying out laws the way Congress intended.

Biennial budgeting would also free up time that could be used by Congress and the Executive Branch to focus more on long-term strategic thinking—examining the challenges our country will face over the coming decades. Congress' efforts in long-term thinking in the off-year could be significantly aided by requiring the President to submit a report every few years on the long-term challenges facing the country.

In these two ways, biennial budgeting could improve the effectiveness of government by providing a more stable budget environment and allowing for a greater focus on oversight and long-range thinking.

1. Is the current lack of time the reason for inadequate oversight or is it that Members aren't interested in doing oversight regardless? Are additional process changes needed to remedy this?

Time is only part of the problem. The key is leadership and the will of individual Members. Structural reforms can be helpful, but for oversight to really work it takes a clear message from congressional leadership that oversight is a priority and that it will be done in a bipartisan, coordinated, systematic way. The key role of the House Speaker, the Senate Majority Leader and the Minority Leaders cannot be overstated.

The will of individual Members to do oversight will ultimately depend on incentives and rewards to do the necessary work. Perhaps a better coordination between party and committee leaders on the existing oversight agenda requirement would produce more meaningful agendas that are more the result of a committee process. The more Members feel they are part of the larger project and play a role in devising it, the more they will be inclined to make it succeed.

2. Will biennial budgeting degenerate into a more ad hoc annual process with frequent revisions and more supplementals? Are there procedural changes that can prevent this from happening?

Any new process can produce unintended consequences. Though it is tempting to limit the number of supplementals, this would defeat the purpose of truly emergency supplementals needed to deal expeditiously with unexpected needs resulting from disasters, war, etc. It is clear that supplementals are increasingly being used for nonemergency matters and to circumvent the spending caps. Leadership controls and presidential veto threats remain the best safeguards against allowing these trends to get out of control.

3. How can the problem of revised projections be effectively integrated into a biennial system?

Ideally, if you are going to plan on a supplemental in the second session, the President's revised estimates should be sent to Congress no later than June 1 so that any supplemental spending could be acted on by the July or August recesses.

4. What role would reconciliation play under a biennial process, especially in the off-year?

Reconciliation should not be done in an off-year unless it is needed for emergency purposes. In election years, too many games will be played with it to either increase entitlement spending and/or cut taxes. It should be dealt with as a follow-on to the budget resolution's implementation, in the first session.

5. What role does the authorization process currently play in the budget process and should that role change? Will a changing role for authorizing committees improve programmatic oversight?

Generally, I favor an increased role for authorization committees, which under the present system are often simply bypassed. Under biennial budgeting, authorizers could submit their estimates to the budget committee for the upcoming biennium. The real problem will be projecting what the need will be three and four years into the future. While authorizers will be forced by biennial budgeting to think three and four years out, they will also be able to spend less time guessing at authorizing ceilings and more time focusing on how well existing polices and programs are designed and being implemented. The need for fine tuning and for occasionally passing new program in odd-years will decrease if authorizers focus more on devising far-sighted authorizing policies based on better policy oversight and long-range thinking. An increased role for authorizing committees should improve programmatic oversight because they possess the greatest expertise and capacity to rigorously monitor and oversee various government programs.

PREPARED STATEMENT OF CHARLES J. WHALEN

Mr. Chairman and Members of the Committee, thank you for inviting me to contribute to your hearing on the possibility of establishing a two-year Federal budget and appropriations cycle. I have followed discussions and research on this issue for more than a decade. My remarks build on previous Senate testimony and an article written for Policy Studies Review.[1])

Highly divergent views have been expressed on this issue. Some argue biennial budgeting would be a "dramatic improvement in the way Congress does business" and promises a more efficient and responsive government. I hope this proves to be the case, but there is certainly no guarantee. Others warn of a "collapse" of the budget process. At worst, however, budgeting would be biennial in name only—a condition that would undoubtedly lead to the eventual return of our present system. My prior writings have suggested, primarily on the basis of state experience, that biennial budgeting could have significant benefits if adopted at the Federal level. I continue to hold that position. What follows is some of what we know about biennial budgeting, in addition to my analysis of some of the major issues.

STREAMLINING THE BUDGET PROCESS

There seems to be consensus in Congress that its Members suffer from what Senators Robert Byrd and Pete Domenici call "fractured attention"—an overwhelming schedule that prevents important issues from receiving sufficient consideration. Last month, for example, more than a dozen Members of Congress offered statements at a hearing regarding the budget process (February 16). Their statements suggest widespread agreement not only that budgeting consumes enormous amounts of time but also that there is insufficient time for oversight, authorization, policy reform, or even a thorough review of spending measures. Even Congressman David Obey, who is uncomfortable with the biennial budgeting idea, observes a lack of oversight and a budget process that is "a mess."[2]

Given the aforementioned problems, a central question is whether biennial budgeting would streamline the budget process—that is, would it reduce Legislative Branch and/or Executive Branch time devoted to budgeting in a two-year period? To answer this question, one would like to examine international experience. But the almost universal use of annual budgeting by other nations makes that impossible. Still, an international perspective on this issue generates two findings worth noting. One is that legislators devote considerably less time to budgeting in parliamentary democracies—interminable budgeting is largely an American phenomenon. The other finding is that annual budgeting is a product of custom and tradition, not fiscal theory.

Turning to examine the very limited Federal experience with biennial budgeting, one finds only a single academic study—on the Department of Defense's formation of a biennial budget for Fiscal Years 1988 and 1989.[3] In that article, Professor Robert J. Art of Brandeis University indicates there were various reasons for the Congress, President and Pentagon to experiment with a two-year budget. Some were attracted by the perceived opportunity to avoid spending cuts, insulate the Department from the 1988 election, and "get Congress off their backs." Others saw the bi-

ennial budget as a chance for Congress and Pentagon managers to conduct more effective program oversight, evaluation and planning.

Professor Art concludes the experiment was a "half success." He writes: "Biennial budgeting yielded no payoff for program stability but a great deal of programmatic and policy oversight. The vagaries of deficit reduction and electoral politics subverted the former [i.e., Congress authorized only part of the two-year budget and appropriated only one year of it]; the free time provided by the off year made possible the latter."[4]

Pentagon comptrollers, service programmers and civilian managers agreed that biennial budget preparation was beneficial. The two-year schedule reduced their problems related to overlapping budget cycles, and enabled analysis, evaluation, database updating, and planning. Services chiefs collaborated on the shared problem of pilot retention. The Navy conducted long-range studies on anti-submarine warfare, future ship operating characteristics, and naval aviation needs. Planning for withdrawal from Panama was also begun. Art reports that biennial budgeting allowed Defense Department administrators "the time to do the things they should have been doing but never could because of the rat race of annual budgeting."[5]

In short, even as a "half success," biennial budgeting at the Pentagon saved time relative to annual budgeting.

Recognizing that states provide natural "laboratories of democracy," many studies have examined state experiences in search of insights relevant to Federal biennial-budgeting discussions. There is disagreement about looking to the states for lessons on this issue. On the one hand, some observe that biennial budgeting is found primarily in small states. On the other hand, the executive director of the National Association of State Budget Officers argued in 1986 that many state budgets are "every bit as complex" as the Federal budget.[6] In my view, an examination of state experience is warranted, especially since other forms of evidence are scarce.

It is often argued that the state-level trend is toward annual budgeting. This was true from 1940 through 1986. Since 1986, however, there have been four changes—all in the direction of two-year budgeting. Table 1 identifies states that currently employ two-year budgeting. States changing their budget process since 1986 are noted along with the year of the change.

Biennial-budgeting states devote one year (or a portion thereof) to budgeting and appropriations, and the following year to oversight, planning and evaluation. In my 1996 article, "Biennial Budgeting for the Federal Government: Lessons from the States," I reviewed seven studies of state budgeting published between 1972 and 1995.[7] The studies, including examinations of states changing from one budget length to another, reveal that biennial budgeting is less time consuming and expensive than annual budgeting. In other words, even after mid-term adjustments are taken into consideration, two-year budgeting eases budgetary burdens on the legislature and public agencies. As for the possibility of a correlation between biennial budgets and increased reliance on supplemental appropriations and rescissions, evidence from older studies is mixed while the two most recent studies (published in the mid-1990s) find no correlation.

Concrete estimates of time saving are hard to find. But estimates provided by state budget officers in both the 1970s and 1990s suggest that off-year budget work is about one-third as time consuming as annual budgeting. Estimates of direct cost savings, meanwhile, range from a few thousand dollars to half the price of an annual budget.[8]

TABLE I.—BIENNIAL BUDGETING IN STATES

	Biennial enactment of two annual budgets	Biennial enactment of a two-year budget	Mixed budget cycle
Annual legislative session.	Arizona (1999), Connecticut (1991), Hawaii, Maine, Nebraska (1987) Ohio, Virginia, Wisconsin.	Indiana, Minnesota, New Hampshire, North Carolina, Washington, Wyoming (Wyoming's legislature meets 20 days in the non-budget year.).	Kansas Missouri (1994) (In Kansas, 20 regulatory agencies are budgeted via two annual budgets; in Missouri, the operating budget is annual while the capital budget is biennial.)
Biennial legislative session.	Arkansas, Kentucky, Montana, Nevada.	North Dakota, Oregon, Texas.	
Total	12	9	2

Source: National Council of State Legislatures.

MAKING GOVERNMENT MORE EFFECTIVE

Streamlining the budget process might help reduce the "fractured attention" problem mentioned earlier. But is this change likely to make the U.S. Government more effective? If the experience of the Defense Department and the states is any indication, the answer is yes.

According to the aforementioned study of the Defense Department's experiment, biennial budgeting produced better evaluation of policy execution and more effective long-range planning. The study's author adds that such results can have significant budgetary consequences, since gains in the realms of evaluation and planning can improve the future allocation of resources. Thus, the ultimate benefits of biennial budgeting are better-quality decisions and greater government efficiency.

While Professor Art does not provide an estimate for the total of potential indirect cost savings, he insists they can be sizeable—especially as a result of lower procurement and weapons-production costs. His report suggests that biennial budgeting could help reduce the unit cost of some weapons by over 50 percent.

State-level experience, meanwhile, suggests that biennial-budgeting states give greater attention to legislative oversight, agency management, analyses of program outcomes, and long-term planning.[9] While it is too early to evaluate Arizona's recent move to a two-year budget, Governor Jane Hull's recent mid-biennium report indicates her budget office and other agencies have already devoted more time to program evaluation.[10] According to the studies of state experiences, there is widespread belief in the states that this non-budget work improves government performance.[11]

In addition to promoting increased program effectiveness, biennial budgeting at the Federal level could enable Congress to give closer scrutiny to particular outlays, especially in the difficult realm of "mandatory" spending. Two-year budgeting also permits changes to be imposed gradually—and without an automatic annual revisiting of decisions. Although some have suggested that biennial budgeting will cause agencies to seek greater spending cushions (i.e., budget "padding"), published examinations of state budgets do not support this contention.

ENHANCING ECONOMIC STABILITY

As in the states, biennial budgeting at the Federal level would require provisions allowing for changes in response to major unanticipated developments and emergencies. But even with such provisions, state-level studies find that biennial budgets promote increased stability and certainty. This is clearly advantageous to agencies—and compatible with the objective of enabling public managers to focus on improving program results. Yet government contractors, grantees and program recipients also benefit.

In 1997 testimony before the Senate Committee on the Budget, Dr. John McTague discussed the benefits of enhancing predictability with respect to investments in science, technology and capital-intensive projects.[12] More than a decade earlier, Dr. Alice Rivlin went further and suggested the increased continuity of biennial budgeting would benefit all Americans.[13] I agree with Dr. Rivlin that we can prevent often-costly disruptions of public and private activity by minimizing unexpected changes in tax and spending policies.

Some say biennial budgeting would seriously weaken Legislative Branch control over the budget and the Executive Branch. Others disagree by maintaining "the grounds [for this belief that control will be lost] are quite shaky" and suggesting that Congress would retain its authority by using two-year budgeting as an opportunity to intensify oversight.[14] My position falls in the middle. On the one hand, the appropriations process "provides a helpful hammer;"[15] on the other hand, annual use of that hammer seems to contribute greatly to the problem of fractured attention.[16]

SUMMARY AND CONCLUSION

Taking the problem of fractured attention as my starting point, I have examined available Federal and state evidence and suggested that biennial budgeting would streamline the budget process, enabling both the Executive and Legislative Branches an opportunity to make government more effective. I have also argued that a two-year budget and appropriations cycle could enhance economic stability through increased policy continuity and the gradual imposition of major changes.

Biennial budgeting will not make budget decision-making easier. And its success will depend on Congress' ability to engage in vigorous agency oversight during non-budget years. But such budgeting can complement the Government Performance and Results Act and other recent initiatives that demand attention be given to

measures of outputs and impacts, not just dollars spent. I hope you find this information useful as you consider the challenges of the current budget process.[17]

FOOTNOTES

[1] Charles J. Whalen, "Prepared Statement" before the Committee on Governmental Affairs, U.S. Senate, S. 261—Biennial Budgeting and Appropriations Act (Washington, DC: U.S. Government Printing Office, 1997); and "Biennial Budgeting for the Federal Government: Lessons from the States," Policy Studies Review 1996 (vol. 14, nos. 3–4, pp. 303–322).

[2] It should be noted that views similar to those heard on February 16, 2000 can be found in the record of numerous hearings held since the mid-1970s.

[3] Robert J. Art, "The Pentagon: The Case for Biennial Budgeting," Political Science Quarterly 1989 (vol. 104, no. 2), pp. 193–200.

[4] Ibid., p. 208.

[5] Ibid., p. 206.

[6] Gerald H. Miller, quoted in Jonathan Rauch, "Biennial Budgeting Taking Root," National Journal, September 27, 1986, p. 2318.

[7] This article is cited in footnote 1 above.

[8] New Jersey Office of Management and Budget, "Biennial Budgeting Survey," February 1995.

[9] See, for example, my "Biennial Budgeting for the Federal Government: Lessons from the States," and General Accounting Office, Current Status and Recent Trends of State Biennial and Annual Budgeting (GAO/AFMD–87–53FS, July 1987).

[10] State of Arizona, " The Executive Mid-Biennium Update: Fiscal Years 2000 and 2001," January 2000.

[11] Consistent with this finding is the February 16, 2000 testimony (before the Committee on Rules, U.S. House of Representatives) of the following Members of Congress—all former legislators in biennial-budgeting states: Hon. Charlie F. Bass, Hon. Doc Hastings, Hon. Bill Luther, Hon. Karen McCarthy, and Hon. Robert W. Ney.

[12] John P. McTague, "Statement" and "Written Questions and Responses," in Concurrent Resolution on the Budget for Fiscal Year 1998 [February 13, 1997—Biennial Budgeting]. (Washington, DC: U.S. Government Printing Office, 1997), pp. 110–114.

[13] Alice M. Rivlin, quoted in Congressional Record—Senate (November 24, 1981), p. 28954. See also her related article: "Congress and the Budget Process," Challenge (March–April 1981), pp. 31–37.

[14] Roy T. Meyers, "Late Appropriations and Government Shutdowns: Frequency, Causes, Consequences, and Remedies," Public Budgeting and Finance 1997 (vol. 17, no. 3), pp. 25–38.

[15] Louis Fisher, "Biennial Budgeting in the Federal Government," Public Budgeting and Finance 1997 (vol. 17, no. 3), p. 90.

[16] It is worth noting that agency managers also experience fractured attention under annual budgeting. In his article on the Defense Department, Art writes "The Department cannot both budget and review annually, or, if it does, . . . [it does] both poorly."

[17] This statement was prepared for delivery at "Biennial Budgeting: A Tool for Improving Government Fiscal Management and Oversight," Committee on Rules, U.S. House of Representatives, March 16, 2000. The author is Senior Institute Economist, Institute for Industry Studies, Cornell University.

SUBMITTED QUESTIONS AND ANSWERS—PROFESSOR CHARLES WHALEN, SENIOR INSTITUTE ECONOMIST, INSTITUTE FOR INDUSTRY STUDIES, CORNELL UNIVERSITY

1. In your prepared testimony you state that "an international perspective on this issue generates two findings worth noting. One is that legislators devote considerably less time to budgeting in parliamentary democracies—interminable budgeting is largely an American phenomenon. The other finding is that annual budgeting is a product of custom and tradition, not fiscal theory." Can you elaborate more on these two findings?

(i) Parliamentary democracies feature a more unified government structure. Critical budget decisions are negotiated within the cabinet; parliaments usually debate and enact a budget in only one or two months.

Moreover, reliance on a parliamentary structure is not the only way other nations achieve budgetary stability. Nearly all employ multiyear budgets for certain expenditure categories such as military spending. In addition, some nations, such as Sweden, place annual budgets in the context of multiyear budget frameworks [see, for example, Allen Schick, *The Capacity to Budget* (Washington, DC: Urban Institute, 1990, p. 220]. (ii) The roots of annual budgeting are not found in economic or political theory. Rather, this fiscal period was initially employed because it corresponds with a full cycle of nature's seasons. The practice of annual budgeting may have considerable merit in an agrarian society. It loses much significance, however, in a highly industrial nation.

At the state level, trends in fiscal practices moved from an initial heavy reliance on annual budgeting to almost exclusive use of biennial budgeting (and biennial legislative sessions) by the early Twentieth Century. After World War II, many states reverted back to annual budgeting. Since 1986, four states have turned once again

toward biennial budgeting. Today, 23 state budgets have at least some biennial components.

2. You discussed the Defense Department experience. Since the Defense Department continues to be required by law to submit a biennial budget request, would the Pentagon be a good first candidate for a transition from an annual to a biennial process? Also, since this submission requirement still exists, has any of the benefit of this preparation remained for the Department even though they have received annual appropriations?

In the mid-1980s, Representative Les Aspin and Senator Sam Nunn—respective chairs of the House and Senate Armed Services Committees—concluded that a two-year defense budget could help their committees focus less on the details of budgeting and more on defense oversight, direction-setting and policy analysis. Defense Department managers also saw biennial budgeting as an opportunity to devote greater attention to program evaluation and agency planning. (See Robert Art, "The Pentagon: The Case for Biennial Budgeting, *Political Science Quarterly, 1989*".)

According to research by Professor Robert Art (cited above), the Defense Department's submission of biennial budgets yielded benefits in the form of increased agency evaluation, better planning and reduced procurement costs—despite the continued reliance on annual appropriations (see my testimony and the Art study for further details). A study that takes an updated look at the Defense Department experience would indeed be worthwhile.

Two comments are warranted in response to the question of whether the Pentagon's budget would be a good first candidate for a transition to biennial budgeting. On the one hand, oversight and planning needs seem to make the Defense budget a good candidate—and there are certainly many highly predictable elements within the defense budget. On the other hand, overall defense spending is widely considered one of the most difficult items to place on a two-year cycle, since some military expenditures are often neither predictable nor deferrable.

3. You suggest that government contractors, grantees and program recipients will benefit by program managers having more resources and ability to devote to focusing on improved program results. Could you give some specific examples of how this would be the case?

Contractors, grantees and program recipients benefit from greater certainty with respect to funding over time. As indicated in Professor Art's study, contractors "can strike more advantageous deals" with subcontractors and parts suppliers—and thus reduce procurement costs—when operating with a multi-year time horizon. Moreover, instability of weapons-system production also increases costs for both the government and its contractors.

In my testimony, I make reference to remarks offered by Dr. Alice Rivlin. On this topic, she writes: "Transfer payments, especially for the elderly, need to be predictable, so that people's lives are not disrupted. Military capability suffers if signals change too frequently. . . . Moreover, service delivery—whether roads, schools, health, or whatever—requires planning time. Frequent change and uncertainty of funding are costly and disruptive. Annual review of research grants increases the ratio of proposal writing to actual work. Indeed, almost all programs would work better if authorizations and appropriations were enacted for several years. Exceptions would appear to be few: natural disasters; military actions; and counter-cyclical programs where triggering mechanisms are not appropriate" (*Challenge,* March-April 1981, p. 36).

4. In your prepared testimony you state that "as for the possibility of a correlation between biennial budgets and increased reliance on supplemental appropriations and rescissions, evidence from older studies is mixed while the two most recent studies (published in the mid-1990s) find no correlation." Can you elaborate more on the findings of these studies?

In 1972, a report by the Council of State Governments indicated legislators in states that switched to annual budgeting identified a need for fewer emergency appropriations as one reason for keeping the new system (*Annual or Biennial Budgets?*, p. 15). A 1984 study, conducted by researchers at Texas A&M University, interviewed officials and observers in states that moved to annual budgeting. That study reported no discernible link between the budget period and the need for supplemental appropriations (*Annual versus Biennial Budgeting?,* section 3, pp. 13–14).

A 1987 General Accounting Office (GAO) report provides mixed results on the basis of interviews conducted with state legislative and executive officials. "No strong pattern" on the use of budget adjustments emerged from the interviews. Nevertheless, the report did find "a slight indication" that some states which moved to annual budgets experienced fewer adjustments while some which moved to biennial budgets experienced an increase in adjustments (*Budget Issues: Current Status and Recent Trends of State Biennial and Annual Budgeting,* pp. 14, 19, 25).

Another GAO report with information relevant to this question was released in 1993. After stating that 49 states must keep their budget balanced, the report indicated 85 percent of annual budgeting states took action to close a budget gap in the prior budget period, while only 47 percent of biennial budgeting states did so. (*See Balanced Budget Requirements: State Experiences and Implications for the Federal Government;* percentages based on Tables 3.1–3.3.)

According to a 1994 report by Ronald Snell of the National Conference of State Legislatures, supplemental appropriations since 1989 have been driven by unpredictable national economic developments that affected all states regardless of the budget period employed (*Annual and Biennial Budgeting: The Experience of State Governments,* p. 8).

5. In your testimony you point to the need for "provisions allowing for changes in response to major unanticipated developments and emergencies." Could you elaborate on what these "provisions" might look like?

Supplemental appropriations and rescissions should be permitted each year. Just as the current process permits budget adjustments during the fiscal period, so to should biennial budgeting.

6. One argument against biennial budgeting is that it would exacerbate the need for supplemental spending bills, which can tend to balloon as they move through the process. Do you have any suggestions for the Committee about how to control the supplemental process to ensure that we do not slide back into a defacto annual process should a biennial budget be implemented?

Avoiding over-use of the supplemental appropriation process requires minimizing the need for "must-pass" supplemental bills and controlling legislators' ability to attach extraneous amendments to such bills. One way to avoid the need for "must-pass" supplemental bills is to create "rainy day" funds for certain events such as natural disasters. (Representative Obey has even taken this idea a step further and suggested creating a system by which states could ensure themselves against such disasters.) Dan Crippen, Director of the Congressional Budget Office, suggests another alternative worth considering: including procedures in the budget resolution that would allow budget totals and allocations to be updated automatically for changing conditions.

7. You state in your testimony that you agree with Dr. Alice Rivlin in a conclusion that, under a biennial budget model, we should "minimize unexpected changes in tax and spending policies." Does this mean that you would argue that the process should seek to prevent the consideration and enactment of reconciliation bills in the non-budget year?

Reconciliation bills should generally be passed in the budget year. Freestanding revenue measures and authorization legislation would be considered in the non-budget year—and their changes would become effective (except in extraordinary cases) at the start of the next biennium.

8. As you note in your remarks, a major argument in support of biennial budgeting is that it would free up the Congress and its committees to focus on more in-depth oversight during the non-budget year. We have plenty of evidence that under the current system, major portions of the budget go from year to year without authorization. Do you think that we need to make additional process changes, in conjunction with enacting a biennial cycle, to strengthen the authorization process?

There are presently a number of ways to circumvent House rules that were designed to ensure authorization precedes appropriation. With biennial budgeting, it may be desirable to make such circumvention more difficult.

9. Some have suggested that biennial budgeting will cause agencies to seek greater spending cushions for the second year of a biennial budget. You discussed this in your written testimony and stated that "published examinations of state budgets do not support this contention." Could you comment further on the findings of these examinations in this area?

In 1984, Texas A&M researchers conducted interviews with officials and budget observers in states that had moved from biennial to annual budgets. They report "no agreement among the respondents as to the effects of [a switch to] annual budgets on the need for agency cushions" (section 3, pp. 13–14).

In 1994, Ronald Snell of the National Council of State Legislatures (NCSL) considered whether the budget period affects state spending. In particular, he examined evidence summarized in a prior NCSL report and a more recent academic study. The prior NCSL report, which reviewed the Texas A&M research and four additional studies, produced the conclusion that the budget period does not have any clear effect on state spending. Snell added that the more recent study "failed to find strong evidence on either side of the issue" (*Annual and Biennial Budgeting: The Experience of State Governments,* 1994, p. 8). [Snell's references: Barbara Yondorf, *Annual versus Biennial Budgeting: The Arguments, The Evidence,* NCLS, 1987;

Paula Kearns, "State Budget Periodicity: An Analysis of the Determinants of the Effect on State Spending," unpublished paper, Department of Political Science, Michigan State University.]

10. What role do you see the authorization process currently playing in the budget process and do you think that role should change? Do you think changing or strengthening its role would improve the role and condition of programmatic oversight?

I would agree with former Representative Lee Hamilton, who recently argued that oversight is currently underused and its value is often underestimated. The two-stage authorization-appropriation process makes sense only if authorization committees engage aggressively in oversight. Biennial budgeting provides an opportunity for congressional committees to conduct such oversight—and to introduce more long-term thinking into policymaking.

Biennial budgeting enables Congress to make full use of agency performance data required by the Government Performance and Results Act. A legislative session devoted primarily to oversight, evaluation and authorization is consistent with the bipartisan goal of devoting greater attention to measures of program outputs and effectiveness. In short, biennial budgeting is consistent with the goal of making government more efficient.

PREPARED STATEMENT OF ROY T. MEYERS

Thank you, Mr. Chairman Dreier and members of the committee, for the invitation to testify on biennial budgeting. Twelve years ago, when I was working for the Congressional Budget Office (CBO), I wrote a long paper on this topic that was published by the Senate Governmental Affairs Committee. Discontent with the budget process was then at its peak, as was the deficit. Now, deficits are only a vanishing memory, yet complaints are still raised about the budget process. Some are as perennial as the daffodils that grace Washington this month: "the budget process is too time-consuming," "deadlines are usually missed," and "budget decisions are often repetitive."

In my opinion, such discontent is sometimes misdirected. A budget process that allocates one-fifth of the Nation's gross domestic product cannot run as smoothly as the Swiss train system. That would also be undesirable, for democracies work only when elected officials argue about how government spends, taxes, and borrows. To paraphrase the wisdom of Finley Peter Dunne's fictional Mr. Dooley, "budgeting ain't beanbag." I suggest that we should celebrate that.

Yet the budget process does have serious flaws, and the Congress should consider how to improve it. Twelve years ago, my paper used the typical "on the one hand, on the other hand" approach of the CBO, but on balance it suggested that biennial budgeting had serious disadvantages. In contrast, my testimony today is somewhat more favorable, because budgeting has changed in two significant ways: there is much less interest in using the budget for discretionary macroeconomic stabilization, and multiyear budget agreements have become common practice.

RESPONDING TO UNANTICIPATED EVENTS

Opponents of biennial budgeting often argue that it would prevent the Congress from responding quickly to unanticipated events. Since this is implausible regarding national security crises, the typical specter is a recession hitting hard in the second-year of the biennium, with the Congress having to wait a year to respond. But think back to 1993, when the Congress rightly killed the President's so-called "economic stimulus" bill. That proposal was minuscule in amount and offset by deficit reduction proposals, poorly targeted, and timed too late in the recovery from the recession. In fact, the long record of discretionary counter-cyclical fiscal policy is dismal; economists showed long ago that relying instead on the budget's automatic stabilizers is a preferable response, and most elected officials now agree. If biennial budgeting would further deter the Congress from displacing the Federal Reserve's critical role in stabilizing the economy, this is a strong argument for its adoption.

Note in this regard that some opponents of biennial budgeting also observe that more states have switched from biennial budgeting to annual budgeting than in the reverse direction, in part to provide maximum flexibility to meet the states' balanced budget rules during a recession. From the macroeconomic perspective, however, state balanced budget rules are strongly procyclical and therefore dysfunctional for stabilization. State balanced budget rules should not serve as a model for the Federal Government. Nor is it likely that most Members of Congress would want to copy a typical mechanism for state fiscal flexibility—many governors have

impressive powers to cut authorized spending without legislative involvement; should the President have such powers as well?

PROMOTING A MEDIUM-TERM PERSPECTIVE

The second reason that biennial's time may have come is that the country now has enough experience with multiyear budget agreements to understand how long they should last. You may remember the harsh argument in 1995 and 1996 about whether 7 years or 9 years was the right time frame for a balanced budget agreement. In retrospect, the extraordinary economic performance of the past few years makes this dispute seem a bit overdone. Nevertheless, that many-year agreement was preferable to a one-year agreement, because it acknowledged the political need for a fiscal glide path. But now that deficits have been eliminated, a biennial period may provide even greater political realism than a many-year period. The two-year electoral cycle for the House is the timing belt for our political system; comprehensive political agreements do not usually last much longer than the next election.

Biennial agreements may also be more realistic from the economic perspective. Budget experts have long cautioned that the annual budget is myopic, so it is good that budget proposals now project effects for five, ten or more years. However, it is clear that a desire for good budgeting is not the only cause of this practice; assuming a strong economy over a long period provides more-than-enough resources to finance many proposals. The problem is that the great sensitivity of these long-run projections to some critical assumptions is being ignored. When projections are too optimistic, the government can approve too much spending and cut taxes too much, quickly frittering away the fiscal discipline that has been purchased at high cost. Using long-run forecasts poorly may be worse than the myopia of the annual budget; biennial budgeting's implicit focus on the next two years may be more prudent than current practice.

THE INEVITABILITY OF LATE DECISIONS

If biennial budgeting would promote budgetary planning over the medium-term, it is still unlikely to make budgeting timely. It is human nature to postpone difficult decisions until a deadline approaches. Since a two-year budget would require more decisions than a one-year budget, biennial budgeting threatens to increase the problem of missed deadlines.

Now it is true that a single-issue bill is sometimes more difficult to pass than an omnibus bill. And it's possible to imagine that some legislators would oppose a one-year budget because their projects weren't included, but would support a two-year budget which added their projects in the second year of the biennium. The second budget year would permit the budget's managers to make commitments that are more credible than "wait until next year." However, it is doubtful that this benefit would exceed the costs of negotiating another year of budget allocations.

Expecting a biennial schedule to speed up budgeting forgets that legislatures are deliberative bodies—they usually take time to reach conclusions. You may know that a very significant percentage of health care spending occurs in the last week of a typical person's life, even if that person has had good preventative care. Similarly, legislatures make many important decisions the week before *sine die*—not earlier, regardless of good intentions.

LIMITS ON "EMERGENCY" SUPPLEMENTALS

Predicting other potential effects of biennial budgeting is more difficult. Some of the claimed effects—both positive or negative—appear overstated to me. This is because the biennial bills would make no changes to other aspects of the process, or more importantly, to critical incentives faced by Members, Senators, or the President.

The most popular approach to biennial budgeting would use odd-numbered calendar years to pass a budget resolution and appropriations bills, both of which would cover the next two fiscal years. In even-numbered calendar years, the Congress would turn to oversight, authorizations, and campaigning. However, unanticipated situations would surely require the Congress to spend part of the even-numbered calendar year adjusting *some* of the appropriations made in the previous year. The risk is that *some* would be turned into most. A nearing election day, and the desire to take popular positions just before it, would stimulate many Members and the President to propose significant budget amendments in hopes of catching the last train. Consequently, there is a very real potential for a huge supplemental that would dominate the spring and summer of the even-numbered calendar year. Therefore—and I hesitate to suggest this because of the budget process is already over-

burdened with rules—the committee should consider supplementing any biennial budgeting bill with the part of H.R. 853 that dealt with emergency spending.

A JOINT BIENNIAL BUDGET

Another proposal in H.R. 853—converting to a joint budget resolution—should also be considered in conjunction with biennial budgeting. The concurrent budget resolution was invented with the hope that the Congress could plan as well as enact budgets, but history has shown that planning is a more demanding task for the Congress than it is for the executive branch. Similarly, while the traditional view of appropriations bills is that they are "must-pass vehicles" which equalize the bargaining positions of the Congress and the President, I understand that many in the Congress now feel otherwise. One reason the Congress has great difficulty passing the budget resolution and the appropriations bills is that the Congress does not seek and reach an early accord with the President over the budget's general parameters. I will admit that a joint budget resolution process would not *guarantee* that the branches could reach such an accord, but there is little risk in trying. It may be overly ambitious for the Congress to go it alone for a two-year budget.

COMMITTEE REORGANIZATION AND EARMARKS

A final hope for biennial budgeting is that it would enable the Congress to better design programs and oversee agency performance. These would be extremely valuable outcomes, but they will not be produced simply by reducing the time spent on budgeting. In fact, as Members of the Appropriations Committee have correctly pointed out to your committee, authorizing committees are not the only committees that oversee agencies, and appropriations bills are powerful message senders to agencies.

Members of the Rules Committee know better than anyone on Earth the institutional disadvantages of turfing between authorizing and appropriations committees and between different authorizing committees. The logical implication is that some committee overlaps should be reorganized out of existence, as Chairman Dreier has suggested in the past. A more radical approach would be to combine authorization and appropriation activities within committees specialized by functions of government. This would help the Congress link plans, performance measures, and budgets as envisioned by the Government Performance and Results Act (GPRA). It would also better connect committee allocations in the budget resolution to the resolution's consideration of priorities among budget functions. While I understand the huge political barriers in the way of this proposal, I submit that moving to a logical committee structure would more likely improve policy design and oversight than would changing the budget schedule.

Advocates of biennial budgeting often complain that excess time spent on budgeting reduces oversight activity in the Congress. While the Congress is actually the world leader in quality legislative oversight, there is no question that it can improve oversight of agency performance, and also its earlier authorization of programs. Again, GPRA provides a logical framework for increasing the clarity and consistency of agency goals, measuring how well agencies attain these goals, and connecting goals and performance to budget allocations.

Some of the biennial budgeting bills would adjust GPRA by linking two-year availability of funds to two-year performance reports. While this is a necessary condition for success, it is insufficient. At least as necessary is good faith between the branches. Over the past few years, the Congress has released some critical reports of agency plans and performance measures. In many cases, the complaints were justified. From the agency perspective, however, Congressional complaints would be more credible if the Congress spent less time stuffing appropriations and authorizing bills and reports with earmarks that are guaranteed to reduce agency effectiveness and efficiency. Members naturally want to deliver benefits to their individual districts, and to some degree, it is useful for the Congress and the country when they succeed. But if self-restraint is the only major barrier to earmarking, the practice can get out of hand. If the Congress wants to promote better program authorizations and oversight, it needs to make earmarking much more difficult. Without that easy option, more legislators will develop the expertise in programs and agencies that is essential for our democratic system to function well. A simple change to the timing of the budget process may help promote oversight, but it is more important to create the conditions under which oversight is highly valued by both Members and their constituents.

CONCLUSION

In conclusion, the committee should seriously consider biennial budgeting. Multiyear budgeting can properly focus attention on the controllable medium-term, but passing a simple biennial budgeting bill will not ensure this. Any shift to biennial budgeting should be coordinated with other complementary changes to the budget process, and a modified H.R. 853 would be a good starting point for such an omnibus bill. Biennial budgeting could also better connect decisions about budget allocations to related decisions about program goals and agency performance. However, it is unlikely that biennial budgeting will have this effect unless the Congress revisits the question of whether committee jurisdictions and responsibilities should be modified.

Thank you, and I'd be glad to answer any questions you might have.

SUBMITTED QUESTIONS AND ANSWERS—ROY MEYERS, ASSOCIATE PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, UNIVERSITY OF MARYLAND, BALTIMORE COUNTY

1. As you know, the current budget process only accounts for changes in mandatory spending and revenues that result from legislative action. OMB and CBO hold the budget harmless for changes in spending or revenue levels caused by administrative, economic or technical changes. Do you think it would be possible and advisable to utilize this existing mechanism (or a modification thereof) as a way of handling such changes in the budget under a biennial process? Is this a way to address part of the difficulties with long term projections?

A biennium is a relatively short time compared to the period used in long-term budget projections—typically 10 years for the aggregate budget and up to 75 years for selected programs like Social Security. Budget projections made over such long time periods tend to be quite inaccurate, for two reasons. First, the projections are highly sensitive to changes in underlying assumptions (e.g., the rate of wage growth). Second, the ebb and flow of political forces in society, and the responsiveness of our political leaders to these forces, cause strong demands each year to adjust budgetary policies.

Reducing the first difficulty would require better data and better modeling. However, because extensive data is already collected and budget forecasters are already quite professional, a significant reduction in long-run forecasting errors is unlikely. The major difficulty in this regard is to convince political decision-makers to take seriously the fact that estimates are likely to be wrong. An automatic adjustment procedure for a many-year budget agreement may prevent that agreement from becoming wildly unrealistic. On the other hand, the availability of such an adjustment procedure may also encourage political decision-makers to extend budget agreements for longer periods than are politically realistic. Elections always shift the balances of partisan power within the Congress and between the branches. Because elections occur every two years, any budget agreement planned to last for more than 2 years is likely to be challenged successfully. Biennial budgeting therefore would establish a more realistic time frame for negotiating budget agreements than would current practice.

2. In your prepared testimony you state that "biennial budgeting may be more realistic from the economic perspective." Would you elaborate on how this may be the case?

In my testimony, I argued that many-year budget agreements implicitly expect budget forecasts to be highly accurate for much longer than two years. When those forecasts are made at the peak of the business cycle, as is the current experience, they show large amounts of uncommitted financial resources. Some political decisionmakers have responded by proposing to allocate, in just this year, all of those resources that are expected to materialize over a much-longer period. Yet there is a significant risk that those expectations are overly optimistic. This risk receives little mention in public debate, which is probably due in part to the fact that official estimates made in the early-to-mid 1990s were overly *pessimistic.*

I am not arguing that the Congress should neglect what might happen in the outyears beyond the biennium. Far to the contrary, for much of what the Federal Government does in the budget has long-term impacts, whether as capital investments, loan obligations, tax provisions, debt burdens, or benefit commitments. The most realistic approach to budgeting would attempt to project the long-term effects of these decisions *while taking uncertainties into account through the use of sensitivity analyses.* A focus on the biennium would be second-best to this approach, compared to the even worse approach of assuming that the U.S. has entered a new golden eon of economic growth.

3. You discuss the issue of which of the two years should be devoted to consideration of budget-related legislation. You raise concerns about using the odd-numbered year for consideration of such bills. Do you think the even-numbered year would be a better approach? Could you elaborate more on these concerns?

If one purpose of biennial budgeting is to require that most budget decision-making take place in one calendar year of a Congress, then the odd year should be the preferred year. The odd year follows the election, enabling *quicker* legislative action in response to an electoral mandate than would the even year. The odd year also allows *more time* for legislative action than the even year does, because of the practice in the even year to adjourn a month before the November election and the associated pressure on individual Members during their primary elections.

However, it is unrealistic to expect *all* budgetary actions to be completed in the odd year. Every legislature on earth tends to postpone some major decisions until shortly before sine die adjournment. Some budget issues would therefore be delayed until the even year. In addition, unanticipated events would likely create a need for even-year amendments to the budget that was just enacted in the odd year. And last, but certainly not least, an upcoming election would tempt Members to propose budget amendments in order to help them campaign effectively.

If the Congress is to budget biennially, it needs rules that would prohibit most nonemergency budget amendments from being adopted in the even year. At the same time, it would also have to use flexible scorekeeping to allow selected, major legislative proposals with budgetary impacts to be considered during the even year. A current example of the latter might be the possibility of enacting a prescription drug benefit in Medicare.

4. What role do you see the authorization process currently playing in the budget process and do you think that role should change? Do you think changing or strengthening its role would improve the role and condition of programmatic oversight?

Based on rate of passage of authorizations bills, the process has significantly weakened over several decades. I also suspect that the authorizations process has become worse in its review of the "big picture"—the attention to strategic direction called for by the Government Performance and Results Act (GPRA)—and consequently, in the connection of the oversight of administration to statutory goals.

Unfortunately, improving the authorizations process would require more significant changes than simply reserving more time for authorizations committees to draft bills and for the floor to consider these bills. I suggested in my testimony that the crucial needed change is a commitment by Members to emphasize this responsibility; this is out of the range of Rules Committee influence. However, I do suggest that organizational restructuring could make it more likely that the authorizations function could be carried out much better.

In practice, appropriations bills "must pass" if agencies are to operate. In theory, authorizations bills also "must pass" if appropriations are to be enacted without facing a point of order. However, in practice, this requirement is waived so often, or made irrelevant by permanent authorizations, that the appropriations process has captured much of the importance intended for the authorizations process. Those practices are partially justified by the tendency of negotiations over authorization bills to reach impasses over sticking points. For example, a President might safely assume that disagreeing with an authorizing committee will not prevent an appropriations committee from enacting an unauthorized appropriation.

My suggestion for improving on this situation is to end any separation of authorizing and appropriating responsibilities. Committees with mandatory spending jurisdiction already combine these functions. The separate authorizing and appropriations committees on the discretionary side of the budget could be similarly combined. In practice, this would require a redistribution of authority between different committees. For example, the irrational split of jurisdiction for health programs could be realigned within a health committee. Though the political barriers to this reform are immense, it is also the case that the Congress faces a continuous challenge to its capacity if it refuses to improve on an internal structure that encourages excessive conflict.

It might be argued that one of the dangers of combining authorizing and appropriating functions within one committee is that budgeting would drive out other activities. Of course, from the perspective of some authorizing committees, this is already the case. When the two responsibilities are combined, each committee would be able to determine the proper balance of budgetary and other activities. Moreover, the message of GPRA is that the two activities are inextricably linked.

PREPARED STATEMENT OF ROBERT L. BIXBY

1. BACKGROUND

Mr. Chairman and members of the Committee, thank you for inviting me to appear today to discuss Federal Government biennial budgeting. I am here representing the Concord Coalition, a nationwide, grassroots bipartisan organization dedicated to strengthening the Nation's long-term economic prospects through prudent fiscal policy.

Concord's co-chairs are former senators, Warren Rudman (R–NH) and Sam Nunn (D–GA). They, along with our approximately 200,000 members who hail from every state, have worked for eight years since the organization's founding by Paul Tsongas, Warren Rudman, and Peter G. Peterson in 1992 to help build a political climate that encourages elected officials to make the tough choices required to:

- Balance the Federal budget
- Keep it balanced on a sustainable basis, and
- Strategically deploy any budget surpluses that develop to prepare for the fiscal and economic challenges that will occur as the Nation's population becomes sharply older in coming decades.

Given these objectives, The Concord Coalition is greatly heartened by the dramatic improvement in the Federal Government's fiscal condition over the past several years. When the 1990s began the Nation was mired in large and growing deficits. The budget process was primarily aimed at reining in and ultimately eliminating the deficit. The Budget Enforcement Act of 1990 established caps on discretionary spending, and a pay-as-you-go limitation on mandatory spending and revenues. By helping to constrain spending these budget enforcement mechanisms made a direct contribution to the more favorable fiscal position we now enjoy.

The lesson to be learned from the overall success of the BEA is that budget process reform, while not everything, can be an important tool in achieving strategic long-term goals.

Today, for the first time in a generation, the budget is in surplus. Indeed, fiscal year 1999 marked an important milestone as the budget was balanced without using the legally "off-budget" Social Security surplus—the first such "on-budget" surplus since 1960. Debt held by the public has declined for two years running, and a further reduction is expected in the current fiscal year. Not coincidentally, the 1990s was a decade of accelerating economic growth.

So why doesn't the Concord Coalition declare victory and go home? Its because our goal has never been to achieve a balanced budget for one, two, or even three years, but to help bring about fiscal policies which can be sustained over the long-term in a much changed demographic climate. In that regard, there is much work remaining to be done. Unfortunately, today's prosperity, welcomed as it is, has not repealed the coming age wave. Nor has it erased the projected growth in age-related entitlement programs such as Medicare, Social Security, and Medicaid. Nor does it signal an end to the need for fiscal discipline and careful scrutiny of the manner in which taxpayer dollars are spent.

As the General Accounting Office and the Congressional Budget Office continually remind us all, the challenges of an aging society include fiscal pressures which cannot be remedied simply by assuming that projected budget surpluses will bail us out. The inevitable growth in spending on age-related entitlement programs will put pressure on discretionary spending, revenues, and public debt. Unless we are prepared to accept a permanent level of government spending and revenues as a percentage of the economy (GDP) that we have not experienced, other than temporarily in times of war, tough choices will need to be made to avoid burgeoning public debt in the future.

Given this set of concerns, it should be readily apparent why the Concord Coalition is interested in establishing tight fiscal discipline procedures and observing them scrupulously. While no amount of process reform can substitute for the hard policy choices you face as the demographic tidal wave approaches, The Concord Coalition believes that moving the budget to a biennial cycle would help shift the emphasis from the immediate, and often repetitious, year-to-year battles over budget resolutions and appropriations bills to the broader questions of strategic planning, oversight, and reform.

Just as the budget process was reformed to respond to the deficit challenges of the late 1980s and 1990s it is now appropriate to consider new reforms which will help you prepare for the challenges of the early 21st Century—wise management of our surpluses, a thorough examination of the role and scope of the Federal Government and careful scrutiny of the programs deem worthy of a commitment of taxpayer dollars.

II. BIENNIAL BUDGETING FITS THE TWO-YEAR CONGRESSIONAL CYCLE

The Concord Coalition has always favored moving to a two-year budget process. Putting the President's Budget, the Congressional Budget Resolution, appropriations and oversight on a two-year cycle that coincides with sessions of Congress makes excellent sense for a number of reasons.

To begin with, the Congressional Budget Resolution is as much a political statement as a management tool (the same is true, of course, with the President's budget.) As such, it makes sense for each 2-year Congress to adopt a single such statement, use it for guidance throughout the remainder of the session and change it only if economic or political events make it completely unworkable. Overall decisions on how much defense and non-defense spending to permit, how much entitlement expansion or reduction to permit, and how tax policy should be changed are matters that should not alter much within any given session of Congress. And, with budget deficits at least temporarily erased, there is no longer the need for an annual reconciliation bill, or for a Congressional Budget Resolution requiring it.

Indeed, from Concord's perspective, *one of the most attractive features of biennial budgeting is that it would lessen the opportunities for fiscal irresponsibility*. Some traditional opponents of biennial budgeting have contended that by moving from an annual to a biennial process, policy makers would relinquish half their opportunities to enact reconciliation bills and reduce the deficit. Now that we appear to be entering a period of budget surpluses, the reverse argument can be made in support of biennial budgeting: with a two-year process, policy makers will have only half as many opportunities to reduce the surplus. That's desirable.

III. BIENNIAL BUDGETING FITS THE DEMAND FOR IMPROVED OVERSIGHT

Another advantage of biennial budgeting is that it would enhance the opportunities for congressional oversight. Congress functions in a biennial mode, and conforming the budget cycle to the congressional rhythm is a sensible change that could replace wheel spinning with productive work, including more attention to oversight. Ideally, the first session of each Congress would be spent on setting priorities and establishing funding levels, and the second session would be devoted to long-term planning and oversight.

Granted, the work of oversight is a more painstaking, and perhaps not as immediately rewarding, task than appropriating. And, as many of your prior witnesses have noted, moving to a biennial cycle would not *guarantee* that time would be made available for oversight or that oversight would be any more thorough than it is now.

But perfection should not be made the enemy of the good. *The key question in this regard is whether biennial budgeting, if successfully implemented, would improve the current situation.* Perhaps one of the strongest arguments in favor of biennial budgeting is that so many members of Congress have come to believe that the annual, repetitive, tussle over the budget makes it impossible to engage in any meaningful oversight. Evidence in support of this perception is the fact that according to CBO some $121 billion worth of FY 2000 appropriations were made for programs and activities with expired authorizations.

In the final analysis, *you are the experts* on whether biennial budgeting will free up a meaningful amount of your time. If in your experience you believe that biennial budgeting will give you more time for oversight and planning, then The Concord Coalition is prepared to take you at your word.

It is also important to note that the potential benefits of biennial budgeting are not limited to congressional oversight. A two-year cycle would improve the efficiency and efficacy of both the Executive and Legislative Branches. Too much time is consumed needlessly in repetitious budget preparation, justification, and appropriation. This energy could be more usefully put to work on improving government performance.

Another relevant consideration, involving both the congressional and executive branches, is how you can best make use of the Government Performance and Results Act of 1993. You will now be receiving a wealth of material to absorb in monitoring the performance of government agencies. Adequate time must be made available to properly integrate the GPRA results into your decision making. In that regard, biennial budgeting makes great sense. It would be far better to free up time to absorb the new information provided under GPRA than to continue the amount of time and energy that now goes into repetitiously renewing or disputing budgetary "decisions" that often have been made "final" only a few months earlier.

IV. BIENNIAL BUDGETING WILL HELP IN "REINVENTING" GOVERNMENT

Now that the budget process need not be focused exclusively on deficit reduction, you have a window of opportunity to do some weeding out, modernizing, and updating of government programs before the demographic and fiscal pressures of the baby boomers' retirement hit. If there was ever a time to "reinvent" government, now is it. In Concord's 1993 *Zero Deficit Plan* we suggested that you look to eliminate:

- Programs that are no longer needed
- Programs that don't work or are inefficient
- Programs we can no longer afford
- Subsidies to narrow interests

The Comptroller General recently gave the Congressional Budget Committees a similar list of suggestions. And, last week the Congressional Budget Office released its annual Budget Options book containing some 250 spending and revenue options. In short, there is a general recognition that simply achieving a "zero deficit" does not mean that there is no further need for fiscal discipline. It does not mean that we should continue to fund programs that are no longer needed, or that are inefficiently run, or that return little public benefit for the amount of dollars committed to them, or that provide subsides to narrow interest.

If biennial budgeting results in Congress having more time to engage in oversight, then American people should expect to see a more productive government in which performance counts, and programs are not simply continued from year-to-year simply because no one has the time to ask whether or not they are still needed.

While I have no polling data to back this up, I firmly believe that the American people would support your moving to a biennial cycle. Doing so would send a powerful signal to your constituents that you are at least as interested in monitoring and, if necessary, reforming the way in which taxpayers dollars are spent as you are in simply determining how much is spent.

V. CONTINUATION OF A LENGTHENING CYCLE

Moving to a biennial budgeting process would constitute a continuation of the gradual lengthening of the budget cycle that has occurred since adoption of the Congressional Budget process in 1974. When the Congressional budget process was launched in calendar 1975, the process began with two budget resolutions for fiscal 1976. By the next cycle, there were three budget resolutions for fiscal year 1977, enacted on April 29, 1976, September 9, 1976, and March 2, 1977.

For the remainder of the first decade of the Congressional budget process, there were two budget resolutions annually, plus a formal revision of the second budget resolution in the following year. By 1982, the second budget resolution was settling into a pro forma exercise that essentially reaffirmed the figures contained in the first resolution. However, not until Gramm-Rudman was enacted in 1985 was the requirement for a second budget resolution abolished. In some ways 1998 marked a new, though unintentional, point on this continuum when Congress was unable to agree on any budget resolution at all. Without the discipline provided by a budget resolution, the end-game antics during the pre-election closing weeks of the 105th Congress became needlessly expensive. Certainly it is possible to improve on this first unsatisfactory experience with a two-year budget cycle.

Formally converting the annual appropriations process to a two-year cycle would be a significant change, but perhaps not as large as it might seem. Some two-thirds of the budget accounts on the annual appropriations cycle already provide multiple-year or no-year funding. Advance appropriations are already made for programs, such as education, where there is a clear need to have funds immediately available at the beginning of the fiscal year. The Department of Defense already submits a two-year budget, though Congress has yet to authorize or appropriate for defense on a two-year basis.

VI. BIENNIAL BUDGETING WOULD NOT BE A FISCAL STRAIGHTJACKET

In considering biennial budgeting, it is fair to ask whether the priorities established in the first year would hold up for two years? And if adjustments were required, how would Congress respond?

On the first question, there is little reason why priorities established at the beginning of each two-year Congress ought not to provide a workable guide for a two-year period, particularly during the current era of extraordinary peacetime prosperity. While there is always uncertainty in budgetary forecasts, the greatest danger in this regard is in using long-range surplus projections to "pay for" entitlement expansions, or revenue reductions. The existence and size of any such surpluses is far too speculative to serve as a reliable source of financing for new permanent commit-

ments. This danger exists whether we stay with an annual budget cycle or move to a biennial one.

On the discretionary side of the budget, a biennial process would create the need for a mid-session "corrections" bill. But the usual fiscal ups and downs on a year-to-year basis should not be so great as to necessitate major changes. A larger surplus than expected could always be used to reduce the debt, or released for high priority items. A larger deficit than expected could be addressed through recissions, or if necessary, be absorbed until the next Session.

Should there be substantial and unanticipated changes in the economy, alarming international developments or extraordinarily severe natural disasters, Congress and the White House would unquestionably respond. The point is that moving the discretionary budget to a biennial cycle would not be tantamount to putting the government on autopilot.

VII. BIENNIAL BUDGETING DOES NOT MEAN RUNAWAY SUPPLEMENTAL SPENDING

Moving to a biennial system would mean that some regular mechanism for considering mid-course corrections would need to be established. The machinery for supplementals and rescissions is well developed. The chief challenge therefore would be not whether there could be a timely and appropriate response to new priorities during the two-year period, but rather how to hold to a minimum the number of such extraordinary responses and their dollar level. If "urgent" supplementals for routine and unnecessary increases are permitted to become the commonplace rule rather than the rare exception, the rationale for moving to a two-year budgeting cycle will have been defeated.

Moreover, if you decide to move to a two-year budget cycle, the likelihood will increase that necessary, sudden, urgent, unforeseen and temporary needs will arise after the budget plan has been adopted (i.e., emergency spending). It is even more likely that merely desirable, helpful, useful or popular needs for additional spending will increase, particularly as election day nears. The record of the past two years has been dismal in this regard. A legitimate safety valve in the budget process was widened into a huge loophole through which Congress and the White House jointly enabled each other to permit more than $30 billion to leak away each year. In fact, the fiscal year 2000 leakage is still an ongoing proposition.

A key element of any transition to biennial budgeting would, therefore, be establishing a way to ensure, or at least protect, against the danger of "death-by-supplementals." It should be made clear that the method of adjusting second-year spending levels would be through one mid-session correction bill, rather than through an ad hoc series of smaller, less scrutinized bills. Bipartisan cooperation at the leadership level (including the administration) would be required to keep the supplemental process from deteriorating.

While there is always a danger that second year supplementals would get out of hand in a biennial cycle, this need not happen if:

- Realistic discretionary spending assumptions are used in the Congressional Budget resolution;
- Rosy economic assumptions are avoided; and
- A regular mechanism is put in place to consider the second session update.

These elements would help prevent an avalanche of supplementals; something Concord believes should clearly be avoided.

VIII. PLANNING FOR EMERGENCIES

The Concord Coalition also agrees with Speaker Hastert and others who have argued that biennial budgeting would encourage Congress and the President to plan ahead for emergencies. Concord favors enacting appropriations in the regular appropriations bills for the principal emergency relief programs at their long-term average levels. Natural disasters—floods, droughts, fires, hurricanes, tornadoes, and earthquakes—occur with dismaying regularity. Expenditures in response to these occurrences tend to fall within a predictable range. To budget in anticipation that there will be no disasters is disingenuous.

Others have suggested that a reserve fund be set aside within the annual discretionary caps at amounts equal to the five-year rolling average. This would provide budgetary resources within the discretionary caps in advance of emergency needs and would eliminate the need for most supplemental emergency appropriations. At issue would be how funds would be released from the reserve, under what circumstances, and what to do with unused funds at the end of the fiscal year. If such an advance funding reserve were created, Concord would oppose establishing it as a trust fund or investing reserves in government interest-bearing debt. Instead, we would prefer to see it function as a score-keeping entry in which credit for unused

funds could be rolled into future years for possible appropriation should the need arise.

One potential partial solution would be to withhold allocation to the Appropriations Committee of a small portion of the two-year total until the second year. This specific "pot" of set-aside funds could function as a safety valve to accommodate new, unexpected needs that, while useful and beneficial, do not constitute true emergencies.

Mr. Chairman, it is clear that no amount of process reform will cure all of the perceived problems with the current system. But the fact that perfection will not be achieved should not deter you from trying to reform the system in a positive way that is responsive to the challenges ahead, and that addresses the frustrations so many of you have expressed with the current system.

SUBMITTED QUESTIONS AND ANSWERS—ROBERT L. BIXBY, EXECUTIVE DIRECTOR OF THE CONCORD COALITION

1. Could you explain your point of view with regard to the statement in your testimony that, in an era of surplus, reconciliation bills are no longer necessary? Reconciliation is a process designed to bring about changes in entitlement and revenue policies—changes that might not occur under the regular order, especially in the Senate. Your testimony appears to argue that without a deficit there would be no reason to want to seek to make such changes in law. Please elaborate on why do you believe that, in times of surplus, we should not be considering revenue changes that might include tax relief for the American people?

In my prepared testimony, I noted that, "with budget deficits at least temporarily erased, there is no longer the need for an *annual* reconciliation bill, or for a Congressional Budget Resolution requiring it." (emphasis added).

The fact that we have projected surpluses, or that we may move to a biennial budget cycle, does not mean there would be no further need for reconciliation bills. Presumably, Congress would still use reconciliation as a vehicle for tax and entitlement changes. But any such changes as may be deemed appropriate could easily be handled through reconciliation bills enacted in the first year of the two-year cycle. Indeed, frequent changes to the tax code and in entitlement programs can be destabilizing and confusing both to the public and to the agencies charged with administering them.

Moreover, it should be noted that there is a significant difference between an era of projected escalating deficits and projected escalating surpluses. In the former situation, there is a critical need for action to prevent a fiscal meltdown. Annual reconciliation bills provide the opportunity to take such action. In the later situation, there is not the same need for immediate action. Unlike deficits, projected surpluses are consistent with the new bipartisan consensus to truly wall-off the Social Security surplus, and to pay down the publicly held debt. Even with the longest economic expansion in our Nation's history the budget in fiscal year 1999 was in surplus, excluding Social Security, by just $704 million. Future surpluses are contingent upon continued strong economic growth, slow growth in health care costs, and fiscal discipline ¾ none of which is guaranteed. In Concord's view, a biennial budget cycle, including reconciliation bills, would provide ample opportunity to address needed changes in permanent law, while limiting the temptation to dissipate the surplus.

2. You discuss the likelihood that, under a biennial process, there would be a need for a mid-session "corrections" bill. How likely do you feel it to be that procedural constraints could be enacted and enforced to keep the biennial process from degrading back into a defacto annual cycle?

The benefits of biennial budgeting would be lost if the process were allowed to fall back into a defacto annual cycle with 13 supplemental bills, or a like amount, replacing today's 13 regular appropriations bills. But there is no reason to assume that this will happen. Under the current annual cycle the administration and Congress routinely handle supplemental bills to deal with unforeseen emergencies, and in some cases, to reorder priorities. These bills can be contentious, but they do not require anywhere near the time it takes for full consideration of 13 annual appropriations bills. Thus, if the midsession corrections bill is treated more as a supplemental bill and not as a reopening of the basic budgetary framework agreed to in the first year of the session, it should be possible to prevent falling back into a defacto annual cycle.

Of course, no one can guarantee that this will not happen. But the possibility of failure should never deter innovation. Obviously, any process reform, indeed any new idea, *might* not work. In this case, the question of success or failure largely

depends upon the good faith effort of the people in the congressional and executive branches who will have to make it work. I am confident that if Congress chooses to adopt biennial budgeting it will not turn around and squander the benefits of this change by allowing the supplemental process to get out of control.

In addition to good faith efforts, other process reforms might help make biennial budgeting work. One is the idea of converting the Budget Resolution from a Concurrent Resolution, which does not require the President's signature, to a Joint Resolution, which does. Bringing the President into the process at an earlier point, as would occur with a Joint Resolution, would help ensure that the framework established in the first year would hold up over the second year, with only minor adjustments.

Another process reform that might help is setting aside a realistic amount for legitimate emergencies, particularly natural disasters. One major problem has been that not enough is appropriated through the conventional appropriations process to finance adequately the disaster relief programs. Scarcely a year goes by without a devastating fire, flood, drought, earthquake, tornado, or hurricane somewhere in the Nation. About the only things that are predictable about such disasters is that they will occur, and that Americans will willingly provide assistance to the devastated victims. Over time, the cost of responding to these tragedies is also roughly predictable. Although we never know what disaster or emergency lies ahead, it's safe to assume that there will be one. Yet, year after year, insufficient funds are appropriated through the basic 13 appropriations bills to finance even an average level of disaster spending. Instead, minimal amounts are appropriated for FEMA and the other disaster relief accounts, and the rest of discretionary funding is used up for other purposes. Then when disaster strikes, it's too late to say, "we should have kept some funds in reserve," or, "we should have originally provided more disaster funding." By then, spending limits have already been reached, and the only way to provide disaster relief is through emergency spending.

A third factor that would help prevent supplemental bills from getting out of control would be the establishment of realistic discretionary spending caps. Much of the recent explosion in dubious emergency spending, and other budgetary gimmicks, stems from having discretionary spending caps set at an unrealistically low level. Tough, but realistic spending caps would help ensure that second year "corrections" bills do not necessitate whole new budgets.

3. Some have suggested possibly including a sunset provision for biennial budgeting. How long do you think it would take before we could assess whether a biennial process is working? What would be the criteria you would use to judge its success or failure? Do you have any thoughts on another suggestion that has been made that we should consider implementing biennial budgeting on a pilot basis just for certain segments of the budget?

The Concord Coalition would prefer that biennial budgeting be adopted on a permanent basis for the entire budget. Doing otherwise would signal a lack of commitment to the concept, resulting in confusion, and potentially, reluctance to fully comply with the new procedures. As noted above, good faith cooperation will be required to make the biennial budgeting work. It can be anticipated that there will be implementation problems in first one or two cycles. If those opposed to the new system know there is a clock running, their temptation may be to run out the clock rather than figure out how to make the new system work. But, in any event, it is clear that Congress can always undo any process reform that turns out to be untenable. So, even without a sunset provision biennial budgeting would only survive if those who must abide by it find it to be an improvement over the current system.

It is difficult to say how long it will take to assess whether biennial budgeting is working. At a minimum, I would allow three biennial cycles to make a fair test. The first cycle, almost by definition, will be experimental. Allowing two more cycles to work out the bugs and to see whether two-year agreements can hold up through a couple of election cycles will be important measures of success.

There are probably no objective criteria to use in judging whether biennial budgeting works. But much of the desire for biennial budgeting comes from a sense that Congress has insufficient time for long-range planning and government oversight. Thus, one measure of success would be whether biennial budget actually frees up time for such activities, and whether Congress actually takes advantage of this time to engage in more effective planning and oversight. Other measures of success would be the extent to which budgetary gridlock is alleviated, particularly in the second year of the cycle, and whether the level of unauthorized appropriations comes down. It would also be important to receive feedback from the executive branch and the General Accounting Office on whether biennial budgeting results in better program management.

Requiring separate cycles for different parts of the budget would be counterproductive. One of the perceived benefits of biennial budgeting is that it would help streamline the budget process. Putting the budget on two different cycles may well result in added confusion. If so, this would not be a fair test of biennial budgeting, which might be blamed for the added confusion. Such a pilot test might also provide the opportunity for new gimmicks, such as shifting funds between annual and biennial cycles. It would be best to set the same rules for the entire budget.

PREPARED STATEMENT OF MARTIN A. REGALIA

My name is Dr. Martin A. Regalia, and I am Vice President and Chief Economist of the U.S. Chamber of Commerce. The U.S. Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region. This breadth of membership places the Chamber in a unique position to speak for the business community. Mr. Chairman, we appreciate this opportunity to testify on behalf of biennial budget provisions, such as those contained in the Biennial Budgeting and Appropriations Act (S. 92), introduced by Senator Domenici, and in several bills introduced in the House of Representatives (H.R. 232, H.R. 493, H.R. 2985, and H.R. 3586), and we commend you for holding these hearings.

OUR ANNUAL BUDGET SYSTEM IS TOO INEFFICIENT

Increasingly, the existing Congressional budget process is unable to produce a budget in a timely fashion. The system is fraught with wasteful repetition and duplication of effort, allowing inadequate time for oversight and management of government programs, suboptimal budget predictability and stability, and even more frenetic activity during election years. The Chamber believes that the adoption of a biennial budget cycle will alleviate some of these by-products of the Federal budget process.

BIENNIAL BUDGET PROPOSALS

As provided in the proposals contained in current House bills and S. 92, a biennial budget would require the President to submit a two-year budget, and would devote the first session of a Congress to developing a two-year budget resolution and attending to 13 two-year appropriations bills. A point of order would be established against consideration of appropriations legislation covering less than two fiscal years and consideration of authorization legislation during the first session until all action on budget-related legislation has been completed. The second session would have Congress concentrate on authorization activities and programmatic oversight of government agencies. If necessary, modifications to the appropriations would be handled through the mechanisms of supplementary appropriations or rescissions in the latter session.

PROBLEMS WITH THE CURRENT PROCESS

Lack of timeliness

Within the current budgetary framework, deadlines are repeatedly missed. The government regularly fails to timely enact all individual appropriation bills to fully fund the government by the beginning of the fiscal year. Since 1950, Congress has enacted all thirteen appropriation bills by the beginning of the fiscal year only three times. During the 26-year history of the Budget Act, Congress has met the deadline for completion of a budget resolution only four times. A timely completion of this year's budget resolution would mark the first time that Congress has met the April 15th statutory deadline two years in a row.

The adoption of multiple continuing resolutions to keep the government in operation has become a commonplace event—the status quo. The threat of government shutdowns—and the occasional reality of actual ceasing of operations—is a very disruptive and disheartening aspect of our system of government. It's no wonder that many Americans have lost faith in their leaders, and feel that elected officials are "out of touch" with their constituents. This annual quandary serves no one's best interests—regardless of political affiliation.

This manner of conducting "business as usual" would not hold up to scrutiny in the business world. This is no way to run a business, and it is certainly no way to run a country. Adoption of a biennial budget system would help free the government from this threat of chaos and paralysis.

Wasteful Repetition

Vast resources, both in terms of human and financial capital are wasted on repeating the budgetary process each year. The current budgetary process is very time and resource-intensive, requiring nearly three years of combined effort by the executive and legislative branches to produce and execute each annual budget. Immense amounts of time and manpower are required for budgetary preparation, review, submission and legislation. This, in turn, siphons these valuable and limited resources away from the tasks of managing and adjusting existing programs to keep pace with today's changing times, and from attending to other, non-budgetary matters. Congress often debates the same issues year after year, and seems to be mired in an ever-expanding pool of budgetary quicksand that swallows up its time and saps its energies. Agencies, too, are left drained by their continual engagement in hearings, markup sessions, conference reports, and planning for the following year's budgetary process. Biennial budgeting would streamline the budget process, reduce needless repetition of effort, and free Federal agencies and Congress to better attend to the interests of the American people.

Inadequate Time for Oversight and Management

Congressional oversight is vital to maintaining the integrity of our country's fiscal health. Our system of checks and balances requires that Congress reviews, monitors, and supervises the executive branch's conduct of Federal programs and implementation of national policy. Oversight ensures compliance with legislative intent; improves the efficiency, effectiveness, and economy of government operations; evaluates program performance; reviews and determines Federal financial priorities; reviews agency rulemaking processes; and acquires information useful in future policymaking. Congress is charged with the power and responsibility to observe and control the government, so that it may rein in its excesses and correct its flaws. Effective oversight of Federal programs results in improved management, efficient evaluations of program goals and performance, and opportunities to remedy problems and prevent waste or abuse of resources.

Unfortunately, the annual appropriations process is so time-intensive that insufficient time remains for systematic and programmatic oversight of Federal programs. This results in the abbreviation of the authorization process, where most programmatic oversight is conducted.

Lack of sufficient oversight has resulted in the squandering of our tax dollars on unauthorized programs. In fiscal year 1999, $101 billion was appropriated for 118 programs whose authorization had expired. Likewise, the Congressional Budget Office has reported that Congress provided another $120.9 billion for 137 unauthorized programs in fiscal year 2000.

Adoption of a biennial budget system would allow the President and his administration more time for management of Federal programs and the Congress more time for programmatic oversight over the course of the budget cycle. Identification and elimination of wasteful and unnecessary Federal spending would thereby be facilitated, making our Federal budget process more effective and economically efficient. Furthermore, agencies would be better able to focus on executing their programs, due to less frequent preparation and justification of future year budgets.

Budget predictability and stabfift

A biennial budget would provide more accurate predictability of funding streams for Federal programs and for state and local programs that rely on the receipt of Federal funds or represent joint ventures between state and Federal Governments. Because a biennial budget necessitates forecasting revenues and expenditures for a longer time frame, agencies and lawmakers will engage in longer-range planning. It is our hope and expectation that this will result in well-reasoned, better thought-out undertakings than those borne by annual budget-making.

Agencies may spend less in the first year of a biennial budget cycle because their appropriation authority extends into the next year. There is no incentive to deplete funds at the end of that year because of that carryforward of funding. Furthermore, longerterm planning can be expected to increase governmental efficiency.

Budgeting for the longer-term will entail greater uncertainties in forecasting revenues or projecting funding requirements of agencies or programs for the course of a budget cycle. However, supplemental appropriations and rescissions can compensate for these shortfalls, as well as for the need to adapt to changing economic and programmatic conditions.

CONCLUSION

In conclusion, adoption of a biennial budget process will greatly improve the efficiency and effectiveness of the Federal Government, and foster a new sense of trust

in our elected officials and in our government institutions. We urge that Congress and the administration join together to enact biennial budget legislation that will achieve these goals. Thank you.

SUBMITTED QUESTIONS AND ANSWERS—DR. MARTIN REGALIA, VICE PRESIDENT OF ECONOMIC POLICY AND CHIEF ECONOMIST, U.S. CHAMBER OF COMMERCE

1. As a representative of many businesses, both large and small, could you elaborate on your point that biennial budgeting increases budget predictability and stability for those served by Federal programs and those who receive Federal money such as research grants, etc.?

In any budget system, the providers and users of public goods and services are subject to two types of uncertainty: planning uncertainty and outcome uncertainty. The first arises because the authorizers and appropriators may change their minds, and the second arises when factors beyond the control of the authorizers; and appropriators change the economic environment. Clearly, a biennial budget cycle reduces the first type of uncertainty and should make it easier for both users and providers of public goods and services to plan ahead over the budget cycle.

2. One of the arguments against biennial budgeting is that the ability to make two-year projections is too unreliable. Do you have any thoughts on that contention?

As I said in the answer to the first question, there are two types of uncertainty. This question refers to our ability to predict or adjust to the second type of uncertainty outcome uncertainty. Clearly, the farther ahead one attempts to forecast or predict the greater is the likelihood that conditions will change, and the poorer will be our forecast. The relationship between predictive accuracy and length of the forecast is not monotonic: for example, 10-year ahead forecasts are not simply twice as inaccurate as five-year forecasts. One must choose a degree of error that is acceptable given parameters, such as the political structure and the benefits of planning certainty. I believe that the benefits from reducing the planning uncertainty balance well against the somewhat higher predictive inaccuracy of a biennial budget, especially when one considers that we have a two-year political cycle.

3. In economic theory and in the private sector, is there anything inherently superior in an annual cycle as opposed to a longer cycle? Alice Rivlin has pointed out that the longer the cycle and view in budgeting, the better the benefits, but realizes that our political system has place a limit on how long we can actually set the budget cycle on discretionary spending with our biennial elections. Could you comment on this as well?

I would agree with Ms. Rivlin's assessment. As I said in my answers to the previous questions, the benefits from planning certainty, in my opinion, outweigh the problems in forecasting error when moving from a single year to a biennial budget cycle. I'm not sure that this would be the case if one were to go much beyond a two-year cycle to say a five or 10-year cycle. The fact that the two-year cycle coincides with an election cycle of the same length is an added benefit. The parties authorizing and appropriating projects in the first year will also be the same individuals reviewing and providing oversight in the second year of a biennial budget cycle, and I believe this would be a positive development.

PREPARED STATEMENT OF THE HONORABLE LEON E. PANETTA

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to discuss biennial budgeting and other budget reform proposals. While I regret not being able to be with you personally in Washington, I appreciate your willingness to do this by video.

In my first term as Congressman from the 16th District in California during the 95th Congress, I had the honor to introduce the very first biennial budgeting bill in the House in 1978. I reintroduced the legislation in subsequent years, with over 40 cosponsors. I am pleased that some 20 years later, in the year 2000, the Committee on Rules and the House is now seriously considering this important reform.

As you know, there have been a number of studies and hearings over the years on serious budget reform issues, including biennial budgeting. I personally participated in a number of hearings before both the Budget and Rules Committees. Reform Task Forces of the Rules Committee were headed up by our former colleagues—Congressman Butler Derrick and Congressman Tony Beilenson. I do hope that you and your staffs will take the time to analyze all of this previous good work in order to get both a sense of the history of this proposal as well as the various viewpoints of the Members.

It suffices to say that one Member's reform is another's demise. Reform proposals are often viewed as threats to the status quo and Committee jurisdictions. But when the existing budget process is not working effectively or efficiently, it makes sense to consider possible improvements. The challenge for this Committee is to determine whether the reforms will give the Congress the opportunity to truly improve the way it does the business of the people, or whether continuing crisis is the only political alternative. While a biennial budget will not resolve all of the current budget problems, it will, in the very least, provide a more rational time frame for responsible budgeting. And after all, establishing a process for controlling spending is why the budget was established in the first place.

The modern day budget process itself developed in the cauldron of political intrigue, disputes and concerns that produced the Congressional Budget and Impoundment Control Act of 1974. While the principal goal of the legislation was to restrict the President's ability to impound spending, Congress realized that it could not limit the President without taking steps to control its own spending habits.

The original authors tried hard to bring some order to the Congressional decision-making process. They were hamstrung by the imperative to protect all existing centers of power and to make the new process appear as benign as possible. The drafters of the Budget Act knew the new process would have a difficult time working, but they also recognized that Congress could not continue to operate without any overall budget constraints.

While the first budgets were the result of extensive negotiations between the leadership and the key Chairmen, as deficits continued to grow, it was obvious that stronger steps had to be taken. This dilemma was ultimately confronted through a series of legislative and negotiated agreements focusing on increased budget enforcement. Having participated in most of those early budget summits as a Member and then Chairman of the Budget Committee, the results of many of these changes are reflected in the existing budget process:

The Balanced Budget and Emergency Deficit Control Act of 1985—the so-called Gramm-Rudman Law—established deficit reduction targets and enforcement procedures (sequestration); the 1987 Budget Agreement negotiated between Congress and the Reagan Administration produced further deficit reduction targets; the 1990 Budget Agreement negotiated between Congress and the Bush Administration established fixed discretionary caps and the pay-as-you-go requirement; the 1993 Omnibus Budget and Reconciliation Act extended discretionary spending caps and pay-go requirements through 1998; and the 1997 Balanced Budget Act further extended discretionary spending caps and pay-go requirements through 2002.

The purpose of these reforms was very simple—it was obvious that, absent strong enforcement tools, the targets set for deficit reduction would never be achieved. There is no question in my mind that were it not for the reforms built into law by the various budget and reconciliation proposals over the years, we would have no balanced budget today.

While it must be emphasized that reforms alone cannot substitute for the substantive decisions that have to be made on budget policy, they can assure that once those decisions are made, they will be carried out.

The point is that reforms can make a difference to the efficiency and effectiveness of the budget process if they are carefully designed and implemented. Of course, any reform is only as good as a majority vote on the floor of the House. Since any requirement can be waived by the Rules Committee, supported by a majority vote of the Members, it is essential that for any reform to succeed, it must enjoy the support of the leadership, the key Chairmen and ranking Members of Committees, and a strong bipartisan crosssection of both parties.

In addition, I do not have to remind you that there are no silver bullets in the budget process. For as long as I can remember, there have been Members searching for that one simple and elusive answer to all of the budget burdens that have to be confronted—a Constitutional amendment to balance the budget, the line item veto, the Gramm-Rudman law, and on and on. There has always been the hope that somehow the budget process could be saved with a single legislative act of some kind. That is not the case.

The budget process is a legislative process, and in that reality lies both its strengths and its vulnerabilities. Nothing can replace the fundamental trust between Members that is essential to making any budget process work. When good members like Bill Gradison and Bill Frenzel were my ranking Members on the Budget Committee, we enjoyed and maintained a relationship of trust and confidence that no reform can replace. If somehow you can restore that kind of personal trust in the budget process, than there isn't a reform you can enact that will not work. In the absence of that trust, few if any reforms can succeed.

But assuming that a better relationship can develop between the parties and the administration, I believe that biennial budgeting is one of those reforms that makes good sense for both the Congress and the Executive Branch for the following reasons:

1. The present budget process is seriously broken. The present budget process is now driven by crisis. Each year, budget resolutions are often delayed past their statutory deadlines, with resulting delays in the appropriations process. When a budget resolution is finally enacted, the targets established are often so unrealistic that the appropriators have to delay the larger and more controversial bills till late in the fiscal year. The result is a continuing resolution, or several continuing resolutions, until a negotiated agreement is arrived at between the Congress and the President. The sad reality is that, in a government split by party, crisis has become the key ingredient to force budget decisions. The result is that more and more decisions are delayed well into the new fiscal year when spending is already occurring in many programs. Ongoing spending needs, rather than a careful evaluation of programs, is what drives decision making. While it may be too much to expect that a two-year budget cycle will eliminate all crisis in the first year, it will in the least confine the larger budget battles and negotiations to every other year, allowing both the Congress and the Executive Branch the time and the stability to better prepare and implement budget planning.

2. Better budget planning and management. Too many budget decisions by both the Congress and the administration are made on a short-term basis. Rather than focusing on long-term funding needs, the crisis management approach to budgeting forces ad hoc spending decisions that are not based on any kind of long-range planning. As a consequence, the current process is very inefficient, and the task of budgeting consumes a great deal of time and energy that could be better devoted to addressing programmatic issues from a longer-term and more in-depth perspective. Not only is the Congress constantly in the crunch of making hit-and-miss budget decisions on programs, the Executive Branch is caught in the same turmoil. During the months of September and October, when Congress and the administration are typically negotiating final appropriations levels for the new year, the agencies and departments of the Executive Branch are beginning the new fiscal year operating under continuing resolutions while also expending great amounts of time developing their budget request for the subsequent fiscal year. The problem is that, until final decisions are made on the current spending year, it is impossible to determine what the spending levels should be for the next. Both the Congress and the Executive Branch need the time to more carefully evaluate current programs, and plan and manage the funding needs of existing programs. Clearly, a two-year budget cycle would provide that needed time.

3. Greater program oversight by both the Congress and the administration. The reality is that very few Committees of the Congress conduct the kind of thorough and essential oversight of existing programs that fall within their jurisdictions. It is only when a scandal occurs or a critical GAO audit is published that Committees take the time to review certain programs, but that's often too late. Most Committees will work on new authorizing legislation, but give little attention to the thousands of programs currently in the Federal budget. The additional year would allow for the Committees to spend the required time reviewing the effectiveness of programs that spend over $1.4 trillion. In addition, the various Appropriations Subcommittees which do their annual reviews of programs under their jurisdiction could do even more careful hearings and studies. The reality is that both the administration and the Congress have fallen into a pattern each year where the same testimony is presented, the same questions asked, and the same favorite programs funded. It would not hurt either the Members of the Committee or those testifying to be subject to greater scrutiny. The same oversight responsibilities could also be implemented within the Executive Branch. The Office of Management and Budget is supposed to be constantly reviewing the effectiveness of existing programs. But the year-to-year budget process makes this at best a hit-and-miss process. They could use the additional time to better fulfill their responsibilities as well.

4. Improved economic projections make two-year budgets realistic. The reality is that the current state of economic and spending projections have improved, so that both the Congress and the Executive Branch have a pretty good idea of what a program can or cannot spend over a two-year period. Indeed, current budgets have gone beyond the five-year projections to ten-year projections. While that is not to say that projections that far out are exact, it is to say that two-year projections are well within the margin of error. It is important that Congress and the administration always maintain the right to make necessary adjustments. However, it is also important that revisions are limited and based on emergency needs, and not just on additional spending appetites. The one thing that could destroy the two-year budget is if a

huge supplemental, covering all 13 appropriations bills, appears every other year. I realize the temptation to do this, but both the President and the leadership must ensure that any supplemental is limited to essential revisions and emergencies.

As with all reforms, a biennial budget will take careful work and preparation. Like any reform, biennial budgeting will not work if the process either becomes too inflexible or too open-ended. For the process to work, the two branches will have to avoid these extremes and find the proper balance under which the major task of budgeting is carried out every two years. That balance will require essential cooperation between the branches.

In addition, there will also have to be an appropriate transition period before the Federal Government and the Congress converts over to biennial budgeting. It must be recognized that this reform will constitute a very fundamental change in how the budget process operates. A conversion to biennial budgeting will have to take into account the magnitude of the change that would be required, both in terms of the need to make necessary conforming changes to those laws that presume the proposal and enactment of annual appropriations, as well as in terms of the need for Congress and the Executive Branch to develop and implement new practices for proposing, considering, and enacting two-year budgets.

A biennial budget system, built around the two year life of each Congress, offers a better way for Congress to commit itself to continuing fiscal discipline and to better planning for the coming years. Besides improving budgeting and planning capabilities, such a system would allow sufficient time to examine programs and find areas within current-year budgets where responsible cuts, reductions, and funding increases can be made.

The present system is not working. In the very least, this reform will provide the time necessary to move toward more sound, effective, and responsible budget making. Is there a risk involved in enacting this reform? Of course. Is it a risk work taking, considering the crisis of the present budget process? I believe it is. I would urge the Committee to support, and the Congress to adopt, a biennial budget process.

Chairman NUSSLE. I did not mean to suggest that our witnesses today are in and of themselves going to be boring. [Laughter.]

Unfortunately, the topic that we've selected is one that is easily overlooked and one that is easily misunderstood. But we have three experts, both from practical, personal, political and technical expertise, to give us their thoughts on this topic. The way I describe it to folks back home when we talk about the rules of the budget process is, it's like opening the game Monopoly and looking on the back of the box to see what the rules are. Those are pretty important rules, and they help determine the outcome, in many instances, over some pretty dicey subjects, who gets Park Place, where the hotels go, etc.

It's no different with our budget process. These rules are pretty important to determine the outcome, how well they work and how easily they are understood, how realistic they are is, I believe, very important in helping us have a smooth process.

One other point I would make, or that I make with them back home is that the rules are fair for everyone, though. These rules should be objective. They are not meant to game the outcome substantively of the process. They should be objective. They should work equally for both sides philosophically and for both outcomes and allow for fair discussion and determination.

The folks that we have here today have, as I say, some great ideas and expertise with regard to that. We have today former Member Bill Frenzel, former Member Bob Livingston and former Director of the Congressional Budget Office Reischauer. We welcome all three of you today. We're honored to have your input.

Your entire testimony will be placed in the record at this point, and you may summarize as you see fit. We'll begin with Mr. Frenzel. Welcome to the committee, welcome back to the committee, as

an alumnus of the committee as well, we appreciate the fact that you would come and give us your testimony.

STATEMENT OF BILL FRENZEL, CO-CHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET; ROBERT L. LIVINGSTON, MEMBER OF CONGRESS (RETIRED); AND ROBERT D. REISCHAUER, PRESIDENT, URBAN INSTITUTE

STATEMENT OF BILL FRENZEL

Mr. FRENZEL. Thank you very much, Mr. Chairman, thank you, Mr. Price. And thanks to the whole committee for your attention to what to me is still a very important subject, even if, in the chairman's description, it is a bit boring. So I will drone on and try to push you into the proper form of somnolescence. [Laughter.]

Mr. Chairman, The Budget and Anti-Impoundment Act was enacted in 1974. Before that, there was not much in the way of rules. It was the law of the jungle with respect to appropriation. In the 27 intervening years, we haven't done a great job of providing rules, or providing process.

As we are seeing this year, it is still the law of the jungle. The budget resolution exceeds the caps, and so forth. We have emergencies that exceed all of our expectations. We have a process that still depends on the individual members and collective will if we are to have any discipline at all. For me, there never probably can be enough discipline.

But suffice it to say that over the years, the Budget Act has not been forcing on the Congress. Congress has still done what it feels it wants to do. Whether we were into reconciliation, and I remember those glorious days in 1981 when we did do reconciliation, or whether we're into Gramm-Rudman, we never really bothered much about the rules. If we didn't like them, we simply wrote a new set of rules.

Sort of the net of this is, no matter what rules you have, in a perfect budget process, they will not ensure a perfect budget outcome. The players still are going to be the ones, who make the decision. This is a political decision, and it should be.

I think the best we can expect is that we get a rational process that the public can understand, that the members understand, and it applies modest pressure on the members, although not forcing, to follow some kind of fiscal discipline.

Congress is having as much trouble dealing with surpluses as it had dealing with deficits. The problems are different. Many of the structures or the restrictions that we tried to put into the process are designed to work against deficits, rather than for them, in a time of surplus. These things are going to require some major changes. As Mr. Price has suggested, a little tinkering isn't going to help much.

But in the history of the budget process, we haven't been successful with a lot of tinkering. As I indicated in my statement, there are a number of things that really must be done. In the first place, your caps and your PAYGO expire in 2002. That gives you an opportunity, while re-installing those restrictions to put some other things into the system that will help, too.

As you know, I'm very strong for a joint budget resolution. I think that getting the President together with the Congress and having a national budget rather than competing budgets is good. It should happen as early in the process as is possible, rather than at the end, and then having a giant fist fight between the branches at the expiration of the fiscal year.

I am satisfied with the biennial cycle, if that's to be a part of the solution. To me, that's the spoonful of sugar that may make some of the medicine go down. I hope that we will have some kind of an automatic CR included in the budget process as an incentive to appropriators to complete their job quickly.

A number of you have suggested that we need some kind of a reserve for emergencies, or "rainy day" fund. I am always amused to see that at the end of the year, Congress is surprised to see that we've had some emergencies.

We also need to work on our concepts. We have—oops, if you'll give me 30 seconds, Mr. Chairman, I think we've got to go back to improving the rescission system, since the line item veto was declared unconstitutional.

It would be a good idea to have this committee, like its Senate counterpart, permanentized. I look around here and it's a fairly junior committee. In some respects, that's a good idea. You haven't got all those bad habits that we gain when we're around here for a long time. But it would help, I think, if we had more permanence here.

And finally, one of the ideas that has come up a little more recently is that it would be a good idea to hold a pre-conference between the House and the Senate, what I think we're now calling 602(b) limits. We used to call them 302s. The process has become a way to game the system, that is to gun up limits on appropriation subcommittee one through six in the House and seven through thirteen in the Senate. Then when the top members of all subcommittees are enacted, it is a surprise. The total is over the budget. I think that would be helpful in adding discipline.

Mr. Chairman, if I had really known how to do it, you wouldn't be holding this testimony today, because I would have done it. But it ain't all that easy, I wish you lots of luck. I hope you are successful.

Again, finally, let me say, I hope you build on the extension of PAYGO and the discrete caps and discretionary spending, and try to put in as much of this reform as you possibly can do, knowing that you're not going to be able to make any system that will make the herd here totally manageable. Congress is still going to do what it wants to do, and that's why it was invented.

Thank you, Mr. Chairman, thank you, Mr. Spratt.

[The prepared statement of Mr. Frenzel follows:]

PREPARED STATEMENT OF BILL FRENZEL, CO-CHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET, AND FORMER RANKING REPUBLICAN, HOUSE COMMITTEE ON THE BUDGET

Mr. Chairman, Mr. Spratt, and members of the committee thank you for the opportunity to testify today. I would like to open with a quote from the 1967 President's Commission on Budget Concepts.

"The budget is the key instrument in national policymaking. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government * * * Budget formulation is

a highly political exercise in the American democratic system, and it should not be otherwise. It is therefore essential that the budget be understandable, at least in broad outline, to as many of the public and their elected representatives as possible."

Winston Churchill described the Soviet Union as a riddle wrapped in a mystery inside an enigma. The budget process is not that opaque. Neither, however, does it meet the standards of transparency and universality that should be hallmarks of good public sector budgeting practice. The current process is outcomes-driven, i.e., it is designed to reduce deficits and balance the budget. The process should be redesigned to make it more outcomes neutral and to promote political accountability.

The Committee for a Responsible Federal Budget published a report on budget process reform just over a year ago. We have provided copies of that report for all members of your committee and for the press. Anybody who wants more copies can get them from our offices. I shall not take time today to reiterate all that report says and recommends. Rather, I shall highlight our most serious concerns and summarize our group's recommendations.

Comprehensive, honest budgets promote accountability. Sound budget process promotes fiscal discipline. When politicians cannot agree on policy they tend to fall back on budget process. But no process can compel consensus and no process is impervious to political leaders determined to avoid budget discipline.

The Congressional budget process has succumbed to an all too human tendency. As soon as you write rules, people tend to bend and break them. When you build fences and fail to tend them, people will find ways to breach them. So many rules and concepts have been bent, broken or abused that the total damage to the process is greater than the sum of the parts. As a result, even well intention and, well-informed people have difficulty understanding the budget today and our broad public policy debates suffer as a consequence.

There are two big problems in the current budget process.

The first problem is caused by surpluses. Surpluses are not the problem. But a process designed to ensure that policy actions do not increase the deficit can be frustrating in the current surplus environment.

The budget process must accommodate changing priorities. If it does not, eventually it will break down.

The existing process is heavily biased toward deficit reduction. Barriers to amending enforcement provisions probably are higher than they ought to be. As the budget has shifted from deficits to surpluses some question the need for continued fiscal restraint. As surpluses grow, political leaders become frustrated with rules they perceive to be unrealistic.

There are, however, problems unrelated to deficits or surpluses. For example, the use of creative definitions has hampered our ability to measure the size of the Federal sector relative to the overall size of the economy. Revenues are considered negative expenditures. Tax credits mask spending entitlements. Current definitions and budget concepts do not inform analyses, as they ought to do. Congress and the President seem to spend an inordinate amount of time on budget-related matters but they never agree on an overall fiscal policy plan for the national government.

Since 1990, caps have acted as a reasonably effective constraint on discretionary spending. But Congresses and Presidents tend to brush aside caps that they consider to be unrealistic. Because entitlements have grown so rapidly, growing discretionary appropriations represent a shrinking part of the budget pie, thus whetting appropriators' appetites. PAYGO acts as a break on new entitlements and revenue reductions. But there is no effective limit on direct spending or revenue losses under existing laws and there can be no effective bar to Congressional majorities and Presidents determined to use part of the surplus for new/expanded tax cuts and direct spending.

Tax expenditures that walk, talk and look like expenditure programs understate both revenues and expenditure. Refundable tax credits, on the spending side of the budget, are hard to distinguish from other entitlement programs. Netting, i.e., subtracting income from expenditures at the account level for selected programs and showing the net figure as programs outlays understates costs and distorts the budget picture.

The Committee for a Responsible Federal Budget has made budget process a priority for the entire twenty years that we have been in business. In the last 5 years, we have worked closely with groups inside and outside government to develop specific recommendations for reform. The most important of those recommendations is a Joint Budget Resolution.

Congress and the President should agree on fiscal policy goals, i.e., aggregate revenues, expenditures, surpluses or deficits, debt levels or debt reduction targets, etc, and incorporate those agreements in a Joint Budget Resolution (JBR). The JBR

should include enforceable expenditure limits for discretionary and direct spending. If political leaders are unwilling to establish hard limits for entitlement spending, the JBR should at least contain targets for major direct spending categories. That would provide guidelines to judge whether and by how much actual outlays exceeded or threatened to exceed budget guidelines.

Other recommendations for reform are spelled out at the beginning of our report. They include the following:

PAYGO discipline should be maintained. The sooner new limits are enacted, the more disciplined the budget process will be. Congress and the President should include limits on the amounts of any projected surpluses available to offset new entitlements/revenue reductions. Legislation that would commit surpluses in excess of the amounts contained in the budget should be subject to PAYGO rules and, if enacted, trigger sequestration.

We favor a biennial cycle for budgets, appropriations and revenue legislation. That could free up time for congressional oversight and serious attention to authorization legislation.

An automatic continuing resolution, at or below the level of the caps contained in the most recently enacted budget resolution, should provide stop-gap funding in the event that Congress and the President fail to reach agreement on some or all regular appropriations bills. Automatic continuing resolutions should be very restrictive. If sufficiently restrictive, they could create compelling incentives for Congress and the President to agree on and enact regular appropriations bills.

Notwithstanding the disposition of the President's recommended reserve funds this year, sound budget practice suggests that you set aside a "rainy day" fund. Regularly recurring emergencies surprise no one except the Congress. Coupled with reasonable limits on emergency spending, the "rainy day" fund could help make budgets more realistic and enforceable.

This sounds obvious, but the budget should distinguish clearly between spending and receipts. There should be very strict limits on receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures. There is a difference between spending and taxes and budgetary presentations should distinguish clearly between the two.

You should enact enhanced rescission legislation to take the place of line item veto. The Supreme Court having declared item veto to be unconstitutional, Congress and the administration still should do all you can to strengthen the President's hand to curb wasteful and unnecessary spending.

It is time for Congress and the President to revisit some basic budget concepts. We highly recommend that you set up a commission to do so. If you do not, we fear that you will find current concepts woefully inadequate when you move to consideration major reforms in huge programs such as Medicare and Social Security.

For example, Medicare Part "B" premiums are treated as negative outlays in the budget. As a result, any Medicare reform that relies more heavily on private intermediaries than the current system will be sorely disadvantaged due to budget scorekeeping.

A concepts commission is the best approach to resolve technical issues and address new issues as they arise. A new concepts commission should meet at regularly scheduled intervals-perhaps every 10 years or so.

We bring you two additional recommendations today that go beyond those included in our report.

The House needs a permanent Budget Committee and the House and Senate Appropriations Committees should agree on subcommittee allocations.

Senate Budget Committee members stay on the committee and accrue seniority as they do on other standing committees. House Budget Committee members rotate. This puts the House at a disadvantage vis a vis the Senate.

Senate Members develop institutional memory and loyalty to the committee and the process. House members do not. That can only hurt the House in conference. Changing to a permanent House Budget Committee would be good for the institution and it would tend to strengthen the budget process. We believe both are laudable goals.

The Appropriations Committees are the only House and Senate committees with exactly similar jurisdictions and identical budget allocations. Also, they are the only committees that receive allocations every year for spending in the jurisdiction of several subcommittees and for many different purposes.

Expenditure allocations to other committees almost always are for specific programs or purposes and everyone knows what they are. Even though allocations for the same program go to different House and Senate committees, therefore, there is little chance that the money will be divided differently to cover different purposes in the two bodies.

Not so with Appropriations. The House Appropriations Committee may give more money to subcommittees 1 through 6 and the Senate committee may give more to subcommittees 7 through 13. Each subcommittee (quite reasonably) believes that it can spend up to their allocation. The tendency, therefore, is for conferences between the two bodies to settle on amounts at least equal to the higher of the House or Senate subcommittee allocation. This tends to undermine budget discipline. It could be remedied by having the Appropriators conference their 302(b) allocations before they file with the Clerk of the House and the Secretary of the Senate respectively.

Mr. Chairman, this concludes my testimony. I would be happy to address any questions that members of the committee may have.

Chairman NUSSLE. Thank you.

Next we will hear from Chairman Bob Livingston. I hope you understand, Mr. Chairman, that by being here today, the Appropriations Committee is finally acknowledging the presence of the Budget Committee. [Laughter.]

Mr. LIVINGSTON. But you have to understand, Mr. Chairman, I am retired. [Laughter.]

Chairman NUSSLE. Oh, well, I was close then. But we appreciate your presence here today and we welcome you to provide us with your thoughts on the budget process. Welcome.

STATEMENT OF ROBERT L. LIVINGSTON

Mr. LIVINGSTON. Thank you very much, Mr. Chairman. Congratulations on your chairmanship, and members of the committee, it's a pleasure to be here, especially with my friend Bill Frenzel and Bob Reischauer.

Five minutes is a short time to cover these subjects, but let me simply say that I have always had misgivings about the length of time that the Congress on the floor works on budget issues. I would like to see a much more compact, concise process, not to oversimplify what you do, because I think what you do is absolutely critical to the fiscal health of the government, and in turn, the fiscal health of the country.

But I think it's the process, not the substance, that needs addressing and can be improved upon. And I congratulate you for holding these hearings. I would say also, that I quarrel with the premise that Congress needs to worry about the impact of any law 10 years out into the future. As you well know, Mr. Chairman, things change day to day around here. And Congress has the power, with the consent of the President, to change the law momentarily if we have a crisis. To project budget impact 10 years from now, is frankly, a joke.

I was opposed to it at 5 years, and then we went to 10 years. Frankly, I think that was just an evolution because it meant something at some time that we've adopted as sacrosanct and I think it needs to be changed.

Really, to do things realistically for this country, we need to project out two or 3 years. Do we need to know what's going to be the impact 20 or 30 years from now on Social Security or Medicare? Of course we do. But that doesn't mean we need to guide our daily fiscal affairs by projecting out to then. Because life is going to change. You've got to expect that. Let's keep our attention focused on what happens now and over the next couple of years.

In addition, clearly the appropriations process needs adjustment. I think that in order to get to that adjustment, the Budget Committee should keep its process short and concise, give the Appropria-

tions Committee their marching orders, set the cap we're going to have to serve under, and let them abide by it or not. If they don't, then we face the consequences later on.

But today, you've got such a hair brained process; by the time you get through the 13 appropriations bills, continuing resolutions, omnibus spending bills, and emergency spending bills that come up that invariably break the caps anyway, there's no common thread of rationality in the process. And we really do need to bring about some sort of process that's not only understandable for the key Members of Congress, but to all Members of Congress, to all the public in general, so that there is credibility in running the fiscal affairs of the Nation.

There has been a phenomenon, Mr. Chairman, in the budget process, that needs to be addressed. If the gentleman over here will pull that first chart. What we don't recall is how things appear today versus how they were back in 1962. I used to walk around with my pie charts that illustrated this point, and I can't escape an opportunity to talk about them again, because it is a point that needs to be addressed.

Mandatory spending in 1962, in the middle of Jack Kennedy's presidency, was 26 percent of the budget. Interest was 6 percent of the budget, and discretionary spending, which we spend most of the year talking about in this Congress, then was 68 percent of the budget. There was cause for spending time on the discretionary budget with all these multiple bills and conflicts that we have back in 1962.

But if you'll pull that next chart; I don't have the pie chart for 2001, but this is it for 2000. Look at the changes, Mr. Chairman. Interest has grown from 6 percent to 12 percent, and I think we're addressing that, finally, by getting the surplus back after some 40 years. But mandatory spending has grown from 26 percent to 54 percent of the budget and discretionary spending has shrunk from 68 to 34 percent.

Now, Congress spends all of its time accusing the appropriators of spending too much or spending too little. By the way, let me not lose this opportunity to say, you guys don't work long enough on regular days. How many people are here? Where are they? They're in other committee hearings. Why are they in other committee hearings? Because this is the only time you can hold a committee hearing; on a Thursday morning or a Wednesday morning, because Members don't come in until Tuesday night, and leave town on Thursday afternoon.

Now, what other operation in the entire Nation operates that way? Mr. Chairman and Members, come and do what we used to do 20 years ago. Members of Congress should come to work on Monday afternoon, discuss things, have votes all day Tuesday, all day Wednesday, all day Thursday, leave Friday afternoon. Then you can get some committee hearings done. Once you have the committee hearings, then you can provide oversight. Because what is lacking in the Federal budget most of all, if you take all the rest of the stuff that we talk about and put it on the side, the one purpose that Congress has in the fiscal process of the United States is to provide oversight. And if we don't have time for oversight, if we don't have hearings for oversight, if we don't come to those

hearings for oversight, then you can just talk all you want, because none of the rest of the process means anything and the buisness of Congress doesn't get done.

In the final analysis, I would say that Congress needs to prioritize. We need to spend more money on the good programs, and eliminate or reduce the bad programs. And you can't do that if you don't have hearings. You can't do that if you don't come to hearings. You can't do that in a process that is not understandable. And you can't do it if you're wasting your time debating on issues that don't matter.

So as I say, 5 minutes is a very short time. I would say simply that you've got to change the process, you've got to get the mandatory programs under control. If there is no oversight, no discussion, no attention to mandatory spending, which has now gotten to be 54 percent of the budget, except for a hearing on it once in a while, every few years.

And what are we hearing now? "Lockboxes" are the solution. Thankfully, that's gone. I mean, that was a gimmick that didn't work. Now we're going to biennial budgets. What do biennial budgets do? Biennial budgets say, "Well, we're not doing a good enough job paying all of our attention every day on appropriations every year, so we'll not do a good enough job paying not enough attention to the budget every other year." That's the "Manana syndrome," Mr. Chairman. That means, we can't fix it doing the process today and tomorrow, so we'll just fix it tomorrow.

The process needs attention. It needs common sense. It needs consolidation. And you've got to remember what the priority is. The priority is to spend more money on good programs and less money on bad programs and figure out how you're going to do that. If you're not going to do that, then Congress can set up shop back in their districts and tell people what a good job they're doing in constituent relations, because they might as well not be here.

Thank you.

[The prepared statement of Mr. Livingston follows:]

PREPARED STATEMENT OF HON. ROBERT L. LIVINGSTON, MEMBER OF CONGRESS (RETIRED)

Mr. Chairman and members of the committee, it is a pleasure for me to return to these historic and familiar surroundings to appear before you on the issue of the budget. I deeply appreciate the invitation to appear, and welcome the opportunity to join my long time friend and colleague, Bill Frenzel, with a little insight into the mysteries of this all-important process.

As a former Member of Congress for 22 years, a member of the Appropriations Committee for 19 of those years, and as the chairman of that committee for 4 years, I have some strong views on the process, some of which might be worth heeding, and others which likely belong in the circular files of other long forgotten testimony.

But for whatever its worth, let me say that I have long felt that far too much attention is spent in a calendar year on the budget. I truly believe that the issue of the budget need not cover a span of 10 years, or even 5 years, since conditions in the country change so rapidly, that predictions today are often overridden in 6 months, let alone 5 or 10 years. Analyses of tax bills and appropriations based on such long term outlooks are generally not worth the paper they are written on, since when things go awry, Congress can always rally and change the premise on which they are written in a matter of days, weeks and most certainly months, without regard to the rationale for previous legislation. Budgets should be projected for 2 or 3 years at the most; beyond that, nothing really matters.

I have frequently joked that to set a budget for the government, we need only spend a couple of hours assessing: A) How much did we raise last year; B) How much did we spend; C) How much do we expect to raise this year; and D) How much

of that (or more) do we want to spend? Then let the Ways and Means and Appropriations Committees confine themselves to the amounts expected of them, and be done with it. Now I realize that this is a gross simplification of the necessary process, but not that gross, and not really that far from reality.

Assuming for the sake of argument that this will not be the order of process anytime in the near future, then there are some other rules that I think are worthy of consideration. One important one is the need for reconsideration of the whole process.

Congress passes 13 appropriations bills, and some odd number of continuing resolutions, Omnibus spending bills, and emergency spending bills every year. The Budget Committee, the press, and the opposing political parties spend billions of man-hours condemning the Appropriators for either spending too much or too little.

But when one considers that the appropriations process only governs the discretionary portion of the budget, and that that portion has shrunk from over 2/3 of the budget in the early 60's, to less than 1/3 of what the government spends today, something is woefully wrong. Entitlements, those programs which have become for whatever reason, some good and some worthless, entrenched and eternally engraved in the process without review or diminution, are slowly consuming all available cash in the Federal budget. When the rest of the world argues over small portions of the discretionary budget, they are in essence quibbling about angels on the head of a pin, instead of striking at the heart of budget imbalances. The real threat to the long-term fiscal stability of the United States is not the Appropriated Discretionary Budget, which is shrinking as a percentage of the whole pie while it is interminably scrutinized every year, but rather those entitlement programs, which are locked in and are rarely if ever scrutinized or reigned in.

That being said, the discretionary budget is not without it faults, and can most certainly be reduced in a bipartisan fashion, where Congress goes on a witch-hunt for truly inoperable, wasteful, unnecessary, unproductive, redundant programs. And they are everywhere. Do we really need 200 drug programs, or almost 500 education programs, or thousands of other programs, which do little for American citizens other than select special interests and lobbyists who support them? I think not, but it takes the collective will of Congress in bipartisan fashion to weed out those programs and eliminate them, or they will surely never be eliminated. That's too bad, because by their continuation, less money is available for the truly necessary, productive and helpful programs, of which there are many indeed.

Cutting the budget across the board by restraining overall numbers is counterproductive to the growth and survival of truly necessary programs, since the good get cut with the bad. Conversely, raising spending limits without prioritizing the increases does nothing for efficiency, and again, the bad programs prosper, to the detriment of the good ones. I will not in this discourse single out programs which are good or bad to be cut by Congress, for that is the role of the Congress, with or without the concurrence of the President, since the Constitution endowed Congress with the power of the purse for the Nation. But without proper oversight of individual programs, whether discretionary or mandatory, adequate prioritization cannot be had, and efficiencies in the budget process are unattainable. Seek out the wasteful programs and repeal them! That is the only way to get the process under control!

I have never been a proponent of gimmicks, like biennial budgets, lockboxes, and other gimmicks, which keep Congress from asserting priorities in the spending process. Biennial budgets are proposed by those who think we spend too much time on the appropriations process. But that process is one of oversight, and if we don't do it in one way, we'll have to invent another to do the same thing. By not appropriating every year, do we really think there won't be emergency supplementals to cover the additional costs incurred by a society as complex as our own? And if you make a process for appropriating every 2 years, what makes you think the Congress will hold the hearings that must be held, especially when there are no deadlines to meet. And if they don't hold hearings, how do they ever weed the productive programs from the nonproductive? The truth is that by trying to solve a much more complex problem by waiving a wand and saying that instead of working on it every year, we will work on it only every other year, Congress will be lapsing from indolence to wholesale irresponsibility. "We can't fix it today, so we'll fix it tomorrow!" is the quintessential "Manana" approach, and it won't work.

The "lockbox" is another idea to avoid doing what is essentially the job of Congress to set priorities. Putting money aside in the midst of the appropriation process only prevents the negotiators in the appropriations process from exerting the leverage they need to confect deals that may in fact lead to curtailing spending.

There is one major exception to this rule that I not only support; I helped start it. That's the concept of a "lockbox" for Social Security and Medicare. In effect, the "lockboxes" are meaningless, since there is no real tangible account into which

money is poured to provide for benefits for our elderly populations. But from 1969 until the surpluses began in about 1997, the government had no concern for the IOU's it was racking up in these programs, and receipts from these programs were used to offset existing spending demands without regard to the future. Only in 1999, did the Congress say, "Enough!" and begin setting aside enough of the surplus so that programmatic receipts were no longer flowing in to the abyss of the Federal debt. Now, Congress is rightly concerned that those programs not be shoved further into the degree of insolvency they were facing only a few short years ago. But to hear some Members cry about the threat to the sanctity of the programs when for 30 years they were not especially concerned with the excessive spending habits of Congress and it's impact on those programs is somewhat amusing.

In keeping with the sentiment for saying what I support, as well as what I oppose, let me say that I think it would be most helpful to change the budget blueprint from a concurrent resolution to a joint resolution which would require the President's signature. By having the President be a party to the annual overall budget plan, Congress would avoid the potential for vetoed bills and continuing resolutions. The process would require some strict limits against the President or Congress imposing too high a level of detail in the budget plan, but if set forth in general but definitive terms, and approved by both legislative and executive branches, the process would become binding, and the chances for subsequent disputes would be minimized.

And, that brings me to the final, and I would think obvious point that unfortunately has proven the exception rather than the rule over the last 50 years. That is the simple dictate that Congress should to the best of its ability live within its means, and should in turn govern the country in like manner. In a budget running into the trillions of dollars, that has only been thought possible in the last few years, but we now see that it is possible, and in fact is happening. But it's terribly important to get the budget process under control through legitimate reform if we are to stay that way. If the process is not reigned in, we will be most certainly looking at billion, nay, trillion dollar deficits in the future. That would be disastrous for our children and their children, so I pray that does not happen, and I wish you all much luck. Thank you.

Chairman NUSSLE. The Sergeant at Arms has been notified——

[Laughter.]

Chairman NUSSLE [continuing]. And he is in the process of rounding up all the Budget Committee members for their compulsory attendance.

Thank you. You were on a roll. I wasn't going to stop you, no way. We really appreciate your testimony. I'm sure members will have questions and you'll be able to amplify. Maybe that wasn't the right word, but——

[Laughter.]

I appreciate your testimony and I, too, am frustrated by some of the quick fix ideas that are out there. I appreciate your dose of reality.

Mr. Reischauer, see if you can top that.

STATEMENT OF ROBERT D. REISCHAUER

Mr. REISCHAUER. Well, I won't even try, Mr. Chairman. As I was listening to Bob Livingston speak, I realized that things were getting too animated and interesting for a process hearing. [Laughter.]

So my challenge will be to bring us back down to the level which you led the audience to expect. I do appreciate the opportunity to participate in this hearing, and I'd like to commend you, Mr. Chairman, for the interest that you've shown over the years in the cause of rationalizing and strengthening the budget process.

As Mr. Frenzel pointed out, some important components of the current procedures expire at the end of the next fiscal year, and therefore, Congress is going to have to decide soon whether to tune up and extend the process that we now have, or to come up with

an entirely new set of procedures that involves some more fundamental reform. I for one would opt for the latter course in large measure because the current procedures were conceived of and implemented in an era of persistent and large deficits. They had as their stated objective balancing the unified budget and we achieved that a number of years ago, and in a sense, it's an irrelevant fiscal objective at this point.

We have entered into a new era, and it is an era in which few budget experts believed was it possible as recently as 4 years ago. If you had come to me and tried to get a bet that we would balance the budget, the unified budget, let's say in 1997, I would have given you pretty good odds against meeting that goal. If you had come to me and said, I think within the next 5 or 6 years, we're going to have balance in the non-Social Security part of the budget, I would have given you the odds of the Maryland lottery.

But here we are in a situation that no person outside of St. Elizabeth's would have thought possible 5 years ago. What we need is a budget process that reflects the budget reality that we live in right now, and that really requires, I think, some more fundamental reforms.

I do believe that there are many elements of the Congressional Budget Act and the Budget Enforcement Act that should be retained and modernized. But we really do need more than simply an extension and updating of the discretionary spending caps, revision of the Pay-As-You-Go rules, and some redesign of sequestration. I've suggested in my prepared statement and elsewhere that budget process reforms should include two important steps.

The first of those is a clear articulation of the fiscal goal that the process is designed to achieve. Are we trying to achieve or maintain balance in the unified budget, as was the case with the BEA and the Gramm-Rudman-Hollings procedures? Are we trying to maintain at least a balance in the non-Social Security portion of the budget? Or are we trying to achieve some more difficult objectives, like using Medicare and Social Security surpluses for debt repayment and balancing the remainder of the budget?

Whatever fiscal goal Congress decides is appropriate, a second important component of a reformed budget process is the establishment of a set of procedures that relates to the disposition of resources that are in excess of the fiscal goal. If we decide that what we want to do is maintain a balance in the non-Social Security portion of the budget, what rules should govern the excess resources that are projected in the future?

I have suggested in my prepared statement that it might make sense to set an allowance for each incoming Congress that would consist of a declining percentage of the projected excess amounts, so that the current Congress would be able to pass legislation, tax and spending legislation, that would absorb 80 percent of the excess surplus over the next 2 years, 70 percent of the surplus over the following 2 years, on down to the 9th and 10th year, for which 40 percent of the surplus would be available for disposition. When the Congress comes in 2 years from now, it would have a new allowance provided to it.

Let me end by reiterating something that Congressman Price mentioned in his opening remarks, and that is that the budget

process is a consensual set of rules that can't force members or parties to go against the political forces that they face. While we might have great visions of what a rational budget process might look like we have to temper those visions by the reality that this is a political process, embedded in a political institution, and the rules, if they deviate too far from that reality, will end up being ignored as they have in the last several sessions of Congress.

I will end on that note. I'll be glad to answer questions relating to joint budget resolutions, biennial budgeting, automatic CRs and the like. Unlike Mr. Frenzel, I think virtually all of these reforms would not be a step in the right direction. Thank you.

[The prepared statement of Mr. Reischauer follows:]

PREPARED STATEMENT OF ROBERT D. REISCHAUER, PRESIDENT, THE URBAN INSTITUTE

Mr. Chairman and members of the committee, I appreciate this opportunity to discuss with you the need for structural reforms in the Federal budget process. For the past decade, Congress and the executive branch have been operating under a complex and confusing amalgam of procedures established by the Congressional Budget and Impoundment Control Act of 1974 (CBA), the Balanced Budget and Emergency Control Act of 1985 (Gramm-Rudman-Hollings or GRH), and the Budget Enforcement Act of 1990 (BEA). While these procedures have helped transform the large and seemingly intractable budget deficits of the past into significant surpluses, they have been abused, misused, ignored and circumvented in recent years.

With the budget outlook better than it has been in generations and various provisions of the current process set to expire at the end of fiscal 2002, now is an appropriate time to review the efficacy of the current procedures. Should the expiring provisions be allowed to lapse, extended in their current form, or renewed in some revised configuration? Alternatively, would some entirely new procedural approach better serve the Nation's interests in the new budget environment?

In an effort to help Congress address these questions, my statement:

- Describes a few of the major dimensions of an effective budget process;
- Discusses some limits on what we should expect the budget process to accomplish; and
- Lays out a new framework that, I believe, would better serve the needs of the Nation in the future.

CHARACTERISTICS OF AN EFFECTIVE BUDGET PROCESS

A well functioning budget process provides a framework for making decisions about the appropriate levels and allocations of scarce government resources, the ways in which those resources are raised, and the degree to which fiscal policy stimulates or restrains the economy. It should establish the order in which various participants act; set out the limits of their actions; provide mechanisms to enforce decisions once they have been made; and spell out clearly the circumstances under which the process can be waived.

In democracies like that of the United States where the executive and legislative branches are elected independently, the budget process must command widespread support if it is to be effective. When it doesn't, one party, legislative chamber or branch of government can and will easily circumvent, paralyze, or game the process. This occurs because few outside the Beltway understand or care much about the process and so rarely do those who flout procedures pay a significant political price. Recently, we have experienced the consequences of an erosion in support for the budget process.

An effective budget process must also be aligned with the Nation's fiscal policy goals. The objective which our current procedures were designed to achieve a balanced budget has been realized and, as a result, the process recently has become somewhat disconnected from reality. The difficulty lawmakers have had adhering to the discretionary spending caps established by the BEA illustrates the problems that can arise when a disconnect develops between the goals the process is designed to pursue and the fiscal reality.

An effective budget process should also encourage transparency and honesty. Dollars, the metric of budgets, are malleable and elusive. Revenues, program costs and savings can be hidden or exposed, minimized or exaggerated, delayed or accelerated.

As much as possible, the budget process should make it difficult to distort reality in these ways.

Given the diverse scope of government activity, it is inevitable that dollars will be used to measure actions that have quite different fiscal consequences. A budget process must try to create a conversion system that strives for fiscal equivalency. Yet, such a system cannot be so divorced from the numbers used in day to day discussion that it becomes incomprehensible to all but the budget experts. The credit reform system adopted as part of the BEA represented a significant accomplishment of this sort.

While budgeting is an annual process, the consequences of 1 year's budget decisions invariably extend far into the future. For this reason, an effective budget process must reveal, in as objective a fashion as possible, the most likely long-run fiscal impacts of current decisions. The process surrounding consideration of the Economic Growth and Tax Relief Reconciliation Act of 2001 was an egregious example of failure to follow this tenet.

Because the environment in which budget decisions are made is fluid and unpredictable, flexibility is an essential characteristic of any sustainable budget process. The economic outlook can change abruptly. Elections, natural disasters, the weather, and international crises can suddenly cause significant shifts in National priorities. An effective budget process must be able to adapt to the unexpected while at the same time not appearing too malleable or capricious. But even an appropriately flexible budget process should be reviewed critically at least once a decade. While a flexible process may be able to evolve through incremental modifications to accommodate changing circumstances and new priorities, there may be some completely different approach that would better serve the Nation's interests.

These and other characteristics of an effective budget process often are in conflict. Tradeoffs inevitably must be made. Simplicity and transparency sometimes must be sacrificed to obtain a greater degree of fiscal equivalency or equity. Flexibility can undermine discipline. And the desire for full discussion of the issues can conflict with the need for timeliness.

THE LIMITS OF AN EFFECTIVE BUDGET PROCESS

Budget procedures are not laws of nature or constitutional strictures. They are the rules and conventions by which lawmakers agree to play when they consider the budget. They are the road markers and speed limits on the fiscal highway. As such, they will be violated when the benefits of doing so exceed the costs and when no one is paying much attention in other words, when budget issues are not in the center of the political debate.

Because budget procedures are intended to guide the behavior of elected officials, it is important that they be compatible with the political pressures and constraints lawmakers face. No process can ask lawmakers to make decisions that will cost them their jobs. The budget process must also fit within, not attempt to change, the larger institutional structures within which lawmakers work.

Because lawmakers have a very imperfect ability to control budget outcomes spending, revenues, and the budget balance the budget process should not hold them strictly accountable for budget outcomes. This was one fundamental flaw in the Gramm-Rudman-Hollings procedures which imposed sequestration if specific deficit targets could not be achieved, even if the failure was the result of a weather-induced surge in farm price supports or a revenue shortfall associated with a slowing economy, developments over which elected officials have no control.

No budget process can force agreement. At best, procedures can facilitate and create an environment conducive to agreement and provide some political protection for those who must make the difficult decisions.

TOWARD A NEW BUDGET PROCESS

Congress must consider whether to tune up and extend the existing budget process or turn to some new approach for the future. I recommend that you develop a new approach, one which is specifically designed for today's improved fiscal environment, rather than the era of persistent deficits.

No matter which course is taken, the first challenge must be to agree on the fiscal goal for the procedures that will guide future budgeting. When the Congressional Budget Act was enacted, there was, at most, a very weak consensus that the budget should be balanced over the business cycle. Reflecting this ambiguity, the new process was structured to be neutral with respect to the fiscal outcome. It did not favor a balanced budget or any other fiscal result. Instead the objective of the process was to ensure that Congress both could evaluate the consequences of different fiscal out-

comes and had the tools it needed to fashion a budget, independently of the executive branch, that would produce the fiscal result it wanted.

In the 1980's when a bipartisan consensus developed that large and persistent deficits were a serious National problem, balancing the unified budget became the explicit objective of the budget process. The Gramm-Rudman-Hollings procedures launched a frontal, but unsuccessful, assault on the deficit by requiring annual decrements in the deficit until a balanced budget was attained in fiscal 2001. The Budget Enforcement Act's approach was more subtle. It placed procedural hurdles in the path of those who would renege on the spending cuts and tax increases that were embodied in the multi-year deficit reduction packages that Congress and the President agreed to in 1990, 1993, and 1997. Nevertheless, the underlying objective of the BEA procedures was to achieve balance in the unified budget.

When the unified budget first registered a surplus in fiscal 1998, the goal of the process was no longer aligned with the reality of the budget. Because the budget had gone from deficit to surplus so quickly and unexpectedly, there was no time for a consensus to develop around a new fiscal objective. Frozen by a sense of disbelief over the Nation's rapidly improving fiscal fortunes, paralyzed by partisan disagreements over priorities and constrained by the BEA's procedures, legislation that could have dissipated the emerging unified budget surplus was not enacted and an even more unexpected situation developed surpluses appeared in the government's on-budget accounts starting in fiscal 1999.

Looking ahead, Congress must now decide whether the budget process should have an underlying fiscal objective and, if so, what that goal should be. One option is to return to that of the pre-1985 process which was neutral with respect to fiscal outcomes. That process, which was formulated at a time when public debt amounted to only 24 percent of GDP and there was not full understanding of the burden that the baby boom generation would impose on the retirement programs, would probably not command much support today. Many would fear that the competition for votes in the current political environment, in which neither party has a firm or assured majority in either chamber, would lead to an era of fiscal profligacy if there were no clearly articulated fiscal goal.

Another option is to reaffirm the goal underlying the current process which is to attain and maintain balance in the unified budget. This goal would accommodate the many priorities that the President and Members have advocated over the last 6 months including increased spending for defense, education, agriculture and Medicare prescription drugs; further reductions in taxes; and added resources to seed private accounts in a reformed Social Security system.

A third option, one that has garnered the most support at the rhetorical level, is to establish as the goal of the process maintaining a fiscal balance in the government's operating budget while saving the annual surpluses generated by the retirement programs for which the Federal Government faces unfunded future liabilities. At a minimum, this involves using the Social Security surplus to pay down public debt; at the maximum, it involves using the surpluses in the Medicare Hospital Insurance (HI), military retirement, and civil service retirement programs to retire public debt.

To the extent that there exists a consensus in Congress about the appropriate fiscal objective, it appears to include devoting both the Social Security and HI surpluses to debt reduction while attaining at least a balance in the government's other accounts. By overwhelming bipartisan majorities, the House of Representatives endorsed this position in each of the last 3 years (H.R. 1259, May 26, 1999; H.R. 3859, June 20, 2000; H.R. 2, February 13, 2001). And some support for the Fiscal 2002 Budget Resolution was conditional on assurances from the managers in both the House and the Senate that the resolution did not violate this fiscal goal. The Bush Administration, however, has explicitly rejected this fiscal goal but has conditionally endorsed the goal of saving the Social Security surplus and maintaining a balance in the government's non-Social Security accounts.

No matter what particular fiscal objective is adopted, any new or revised budget procedures should establish rules to govern actions when the fiscal objective has been exceeded or is projected to be exceeded in the future. This represents a new challenge. Few of the architects of the GRH and BEA legislation ever expected to live in an era of comfortable unified budget surpluses. However, that has been the reality for the past 4 years. And the January 2001 CBO projections clearly show that, under baseline assumptions, a long period lies ahead during which any of the fiscal policy objectives I have discussed would be exceeded. While the tax cut and the other promises made in the budget resolution and the weakening economy have changed the short run outlook, it is highly likely that policymakers will find that future budget projections show considerable fiscal flexibility five to 10 years out.

Considering this possibility, any reform of the budget process should address the question: When and how should amounts in excess of the fiscal goal be dissipated? There are two strong arguments for establishing procedures that sharply limit lawmakers' abilities to dissipate projected excess amounts. The first is the inherent uncertainty of budget projections, particularly projections that depict conditions more than two or 3 years in the future. If lawmakers enact tax cuts and spending increases now that absorb all of the excess amounts projected for the future, later on if the economy does not perform as expected or if entitlement programs grow more rapidly than projected they could be forced to choose between approving painful tax cuts or spending cuts or falling short of their fiscal goal. The second is an issue of equity. Even if budget projections were perfectly accurate, future Congresses should be given some say over the fiscal leeway that is projected to emerge on their watch. The priorities today's lawmakers see for the future will almost certainly not turn out to be the priorities of lawmakers and the public five or 10 years from now. Economic, social, and international conditions will be different in ways that we cannot predict today.

For these reasons, it makes sense for the budget process to limit the extent to which lawmakers can commit, through legislative action, resources that are projected to be in excess of the fiscal goal in the future. I have outlined elsewhere a budget process reform which would allow each new Congress to encumber only a declining fraction of the resources that exceed the fiscal goal under the baseline projection. No more than 80 percent of the excess resources predicted for the first 2 years would be available for commitment. For the next 2 year period the allowance would drop to 70 percent, for the subsequent period to 60 percent, and so on until the 9th and 10th years of the projection period for which the new Congress would only be able to encumber 40 percent of the resources that were projected to exceed the fiscal goal. When each new Congress convened, the Congress would calculate a new allowance using CBO estimates.

This system would be enforced through variants of the pay-as-you-go and discretionary cap systems that are parts of the current process. To determine whether future allowances were likely to be breeched, all discretionary spending would be projected forward using the baseline projection methods. The future costs of newly enacted entitlement and tax legislation would be projected under the assumptions that all provisions were fully implemented by the seventh year and that no provisions expired or were cut back in the out years. These safeguards would ward off some of the gimmicks that have been used recently to minimize the apparent budget impacts of program expansions and tax cuts.

CONCLUSION

While many elements of the CBA, GRH, and BEA processes should be retained and, in fact, should form the core of the new budget process, more in the way of fundamental reform is also needed. It will not be enough to make some incremental changes in the discretionary spending caps, the pay-as-you-go system and the rules governing sequestration. Since our current processes were formulated, the budget environment has changed significantly in ways that no one could have predicted. A new set of procedures, one that reflects the new reality, is needed. While it may be too late to consider such reforms this year, time is short. Confidence in budget procedures has eroded markedly over the past 3 years. Too often decision makers at both ends of Pennsylvania Avenue have viewed the process as an elaborate game through which to gain short run political advantage rather than a set of consensual restraints designed to further the common good and preserve some modicum of fiscal flexibility for the future.

Chairman NUSSLE. Thank you. Let's begin, then, with joint resolutions, since you brought it up. I happen to be a proponent of that, as well as a number of other reforms. Again, as I stated in the outset, I don't believe that any one reform in and of itself will do the job. I am not advocating that a joint resolution or, in other words, making the budget a law in and of itself will require or will fix what ails us.

My purpose in advocating a joint resolution as part of a package of reforms is to do two things. One is to make the process realistic and real up front, making that decision binding, as binding as you can make it. Certainly more binding than you have in this current process, and secondly, to bring the administration in earlier.

Currently, the President has the ability, and we've seen it in some instances, to throw the budget on the table on February 3rd and walk away until October and have very little to do with negotiations until it appears to be in their political best interest to join in the discussion or in the fight. And bringing the President and the administration earlier into the process, I believe could help that.

There are some, however, who suggest that this gives the President too much authority and too much power. So the first question I would have for all three of you is, give me the pluses and minuses from your side of the table when it comes to a joint resolution. I'll begin, since you were bringing it up, Mr. Reischauer, I'll begin with you and we'll work across.

Mr. REISCHAUER. I think you have laid out the plus side for a joint resolution. And I think a good argument can be made on that side.

What I am concerned about is the possibility that wrangling between the Congress and the President, which now begins in September and lasts through October, might begin in March and end in October. I see a certain advantage to a system like the one we have now, which I would say, is one of sequential shame in the sense that the spotlight of press and public attention focuses first on one branch of Government, have you proposed a budget? Is the budget realistic?

And there's a food fight over these issues. Then it focuses on the Congress; is the Congress doing gimmicks, is it doing its job in a timely fashion? Is it meeting the deadlines?

When you have separation of powers but joint responsibility for an activity like putting together the joint resolution, it will be unclear who is responsible for the lack of forward progress. We have seen that when that is the case, the process can drag out interminably.

Chairman NUSSLE. Chairman Livingston.

Mr. LIVINGSTON. Mr. Chairman, I share your support for the joint budget process. I also share in the remarks of Mr. Reischauer. I would say, I would fear that there would be a tendency of such a degree of interaction between Budget Committee and the President, that each side would want to assert its priorities and start appropriating bills right from the beginning, and there wouldn't be any need for an appropriations committee. Lord knows I'd hate that.

But apart from that, I think that if you focus on targets, and essentially say, "Look, the last 5 years we've raised so much money through the Ways and Means Committee, and there's so much money available, and this is what we project this year; and for the last several years we've spent so much money, and this is what we project we need to spend this year," and set your targets accordingly.

Then the President would give a thumbs up or down. If he wants more money, he can argue about it. If he wants less money, he can argue about it. But once it's signed, and the overall caps are locked, then that's it. That's a straitjacket. And Congress can't exceed or decrease that amount any significant degree.

And I do think that sort of process would lead to a lessening in the divisiveness at the end of the process, fewer vetoed bills, fewer continuing resolutions and certainly fewer emergency supplementals.

Chairman NUSSLE. So a joint resolution of the macro numbers, not the micromanagement?

Mr. LIVINGSTON. Macro numbers. If you try to get down at the lower detailed level, I don't think it could possibly work.

Chairman NUSSLE. Would that proposal help persuade you that that might work a little bit better, Bob Reischauer?

Mr. REISCHAUER. No. And let me explain why. It's very easy for people to agree to grand principles or to the abstract. But what you deal with is the nitty-gritty in the appropriations process. And while the overall amount for defense or the amount for domestic discretionary might seem reasonable in March, when you aren't considering the sum of the line items, it won't seem reasonable in September and October. And given that, I think you will devise, as you have done in the past, gimmicks and ways around the limits that are imposed, even though they are legislated.

Mr. LIVINGSTON. I think they have more impact than current law. And right now——

Mr. REISCHAUER. I have more faith in your ability to evade than Mr. Livingston.

Mr. FRENZEL. Mr. Chairman, I think you've heard most of the arguments that I would raise on either side of this. I like the idea of getting the President and the Congress together earlier rather than later. I think our untidiness at the end of the fiscal year is a real pain when we scrap over the last of the appropriations and have those kinds of fist fights. Maybe we can never get away from that.

I also like the idea of having a budget that is a national budget. Right now, we have a President's budget, we have a Congressional budget, nobody knows which is which or understands them. Once the President signs your budget, then at least some of that confusion would be laid aside.

I agree that a President or a Congress could stall those negotiations for a long time, and that it is conceivable in the range of possibilities or probabilities that it could be worse than the present system. There are some people who will tell you that this gives the President more power and causes a power shift between the Congress and the President.

I don't believe that. I've never been a President, I have been a legislator. If I really believed that, I think I would not like that solution. But I believe Congress has the constitutional power of the purse, and it's pretty hard to pass it over to the President.

Next, I think it's a good idea, but I think Mr. Reischauer has good arguments against it.

Chairman NUSSLE. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Let me add my thanks to all the witnesses for some testimony that's actually more stimulating than budget discussions usually are. I think we've had some important issues opened up.

I do think this idea of a joint budget resolution is a pretty good example of what a couple of you were referring to earlier. That is,

the conflict that often arises between our aspirations, the way things look and are supposed to work on paper and political reality.

We've already begun, I think, to explore some of the possible unanticipated consequences of the joint resolution format. I expect all of us would like to have the Executive engaged earlier in the process. We would like to have budget resolutions that mean something and that stick. And we'd like to have a cleaning up of the messiness of the end of session scramble to finish appropriations bills.

Whether this particular remedy would do the trick is another question. And I think it was you, Mr. Reischauer, who suggested the effect might be, particularly under circumstances of a divided government, divided party control of the White House and Congress, simply to bring all that end of session conflict up to an earlier point and then make it even more difficult to get a degree of resolution that would let us proceed with the appropriations bills. I think we have to acknowledge how that could happen and how that could be an unanticipated result of this.

Let me move to the question of biennial budgeting. Some of you touched on this. I think it's striking. I think Mr. Frenzel referred to biennial budgeting as the spoonful of sugar that might make some less popular proposals go down, which indicates this is a proposal that has a good deal of support, at least superficially. A number of people think that it would be nice to go through the entire appropriations process not every year, as messy as that has become, particularly in the latter months of the session.

Presidents of both parties tend to support biennial budgeting. In fact, the last four Presidents, are on record as supporting this, including the present President and President Clinton. I guess my own suspicion is, if that suggests biennial budgeting isn't a sharply partisan issue, it should suggest it may be an institutional issue. And we'd better think about the institutional implications of passing our budget and our appropriations bills in the first few months of a 2-year Congress and then being fiscal lame ducks thereafter.

I don't want to show my own hand so much, though. I'd like to hear your remarks on that. What are the institutional implications of biennial budgeting? And I put it that way deliberately. What are the implications for the power, the responsibilities, the place in the overall constitutional scheme of things of the U.S. Congress of biennial budgeting?

Mr. FRENZEL. Well, I'd be glad to start. I have to confess as I did in my testimony, that I am not the most ardent advocate of biennial budgeting. I became a supporter at a time when certain Members of Congress who didn't like any other reforms thought that was a pretty good one. So I thought that made a nice sugar coating, if nothing else would work.

I don't see that it is an institutional matter. I guess I would say, judging from what my appropriator colleague suggests, is that it might give the Congress a little more time to think about what it's doing, and do the oversight. Although I have never been a real believer that Congress really wants to do oversight at all. But again, maybe some kind of a process to perhaps not compel but at least give some incentives for more oversight.

I think that would make the legislative branch stronger, if that in fact would work. But to tell you the truth, I don't see that as

a down side, and I do not see that it is complicating in ventures at all.

I'm with Bob Livingston, 10 years is absurd, and we'll all be living on the moon in 10 years—or dead or something. On the other hand, that's not a problem for this House, that's a problem for the other body.

But I don't see institutional ramifications, or at least ramifications that would lead me to believe that it would diminish the legislature's role in any of these processes.

Mr. PRICE. Mr. Livingston?

Mr. LIVINGSTON. Thank you, Mr. Price. I appreciate the question.

If biennial budgeting were proposed, would it reduce the workload on Congress? Yes. But I think the responsible workload would be reduced and not necessarily some of the stuff we just waste time on.

First of all, if it were passed, you'd have it in year one and year three and you wouldn't have it in year two. What happens in year two? Well, the argument is, that's more time for oversight. I daresay that Congress will display, in its innate wisdom, the same tendency it displays in every other instance, and that is, well, we don't really have to do it now, so we can do it later. And they'll be running up to the wall, and invariably, the oversight hearings aren't going to be held, because Congress is going to find other things to do.

We've got 270 million hard working people out there, and they have immediate needs. So, to think that there's not going to be an appropriations process in year two is a pipe dream. You're going to go through the same process, you're just going to call it something else. But you're going to only be dealing with the emergencies, and the oversight hearings are going to be shoved to the side, and they're not going to happen.

And I think the better recommendation is that Congress comes to work on Monday afternoon and leaves on Friday afternoon. That way you'll get things done.

Mr. PRICE. Of course, what the appropriators do is itself probably the most careful oversight we engage in around here. Without being tied to the actual power to appropriate, you might lose some of the incentives and some of the teeth that oversight now has.

Mr. LIVINGSTON. I agree with you. Frankly, again, it's what you have to do. Look, oversight is a function of every committee in this Congress. But I daresay that you can find committees, and I don't want to point fingers, but you can find committees that don't do much of it. And why? Not because they don't have the time, because they've got other things to do.

I think if you go to a biennial budget process where the Appropriations Committee really doesn't have to, so they can but they don't have to provide oversight, they're not going to.

Mr. PRICE. Mr. Reischauer.

Mr. REISCHAUER. I agree strongly with the points that have just been made. I'm a believer, unlike Mr. Frenzel, that inevitably, a biennial process would lead to a strengthening of the Executive over Congress. In every State that has biennial budgeting, the Governor or somebody under the Governor's control has considerable discretion to adjust budgeted amounts during the biennium. Some flexi-

bility of that sort inevitably would have to be granted to the executive branch.

I think it is a pipe dream to expect that this will speed up the process or reduce the amount of time that is spent on budgeting. If we're going to make these decisions once every 2 years, the stakes are going to be a lot higher, and the combatants are going to fight a lot harder because this could be it for 2 years, and after a lower appropriation has been in place for two years, it looks like history and it might be in there forever.

So I can see this bringing about, in fact, tremendous gridlock. If that isn't the case, the other alternative will be what Mr. Livingston pointed out, which is large supplementals in the off years. Those supplementals will be less visible, they will be decided by smaller groups of legislators and they won't have the full consideration of the Congress. I think that would definitely make things worse.

I also agree that oversight is something that is often carried out most effectively through the appropriation process—through the appropriators having strings through which they can get agencies to answer specific questions. Furthermore, a 1-year time frame, while it might be inconvenient for those in the agencies, is not wrong for a world which is changing very rapidly and in very unpredictable ways.

Finally, let me point out that we should just look at what has happened over the last 6 months to realize the rapidity with which conditions that affect budgeting change. The world looks very different now than it did 6 or 8 months ago. If we were making decisions in March basically for the next 2 years, we might find ourselves making decisions that didn't meet the Nation's needs.

Mr. PRICE. Thank you.

Thank you, Mr. Chairman.

Chairman NUSSLE. Mr. Sununu.

Mr. SUNUNU. Thank you, Mr. Chairman.

I'd like to ask two questions and have each of you respond to both, if possible. The first is about institutional change, not necessarily legal reform or process reform. Congressman Livingston mentioned the potential value of quite literally changing the structure of our work week and improving oversight. I have from time to time thought about another similar change in the institutional structure, which is to have Members serve on fewer committees. We have Members who serve on two and three committees.

It's outstanding that they've expressed interest in those areas, but it can be incredibly time consuming. To have a Member serve exclusively on a single committee, for better or for worse, forces them to put an extra effort into developing an expertise and devoting time and resources to making a difference on that committee. I do think that leads to better oversight.

But my first question is, are there any other institutional changes that we haven't talked about yet, that any of you might think would lead to better oversight? The second question is about emergency powers, emergency appropriations and the process for funding emergencies; what kind of changes or improvements to that process do you think might be possible, recognizing that at the end of the day, even if it's just a matter of having the votes, any

process or law you have in place, that we have the votes to waive that law or overcome it in the appropriations process, that the will of the House or the Senate will prevail?

Why don't we start with Congressman Frenzel.

Mr. FRENZEL. Thank you. With respect to institutional change, oversight, budget process, etc.——

Mr. SUNUNU. Very specifically oversight, changes related to oversight, because I agree very much that it's an enormous weakness.

Mr. FRENZEL. I have to say that my colleague Bob Livingston had that about right when he suggested it would be nice to put in a full week of work here, and schedule accordingly. But with respect to your suggestion about fewer committees, I did get involved in a lot of reform efforts, for jurisdictional reform and committee assignments and so on. I broke my pick there even worse than I did on budget reform.

It is really difficult to get Members to give up anything that they now enjoy in favor of a rational alignment of the talents of 440 people into a couple dozen committees where everyone has one good one, or one and a half good ones, and puts his or her heart and soul into it. That would be the right way to do it. But I don't see how you get there from here.

And if that were the case, I would agree with your thesis that that would be likely to produce better oversight work. But to me, it is another one of those lost causes that's just too hard.

With respect to emergency appropriations, we will always have emergencies. I believe that, however, we can plot pretty clearly what we spend on so-called emergencies. And we can plan that we are going to spend "X" dollars in fiscal year whatever for emergencies. And the fact that we don't plan, means that we spend all the money available on other things, so the emergencies get piled on top. It simply means that we spend more of the people's money.

We're never going to neglect emergencies. But I believe in planning ahead for them we can at least get a more rational allocation of assets to other expenditures and then if we have some extras on top, it won't be as large as it is now when we declare everything an emergency. So called "rainy day" funds that are reserved for emergencies are a very important part of budget discipline, and I hope you do something about it.

Mr. LIVINGSTON. Just to follow up on that, I think they would be very helpful. Our experience in setting up "rainy day" funds over the last years has been that somebody always found out about and spent the money. I don't know how you structure it. I agree in principle it's got to be done, it would be helpful if you have it. You're always going to have natural disasters, frankly, that bring about the need for the "rainy day" fund. But there's invariably somebody out there with his eye on that pot of money, who finds another use for it, and you're back where you started.

In answering your second question first, Mr. Sununu, I would say that one thing that was in my written statement that I didn't mention is a process that has already been undertaken by this Congress that I think is probably one of the most significant accomplishments of modern times in the fiscal world. And that is, apart from the fact that we have a budget surplus versus a budget deficit, we put together a setaside and said we're not going to spend

the current receipts of the Social Security trust fund, and the Medicare trust fund.

From 1969, when President Johnson had to pay for the Vietnam War, we abandoned that principle, and we stayed off of that principle for some 30 years, until just about 3 years ago. Frankly, I take a little credit at awakening people that we could do this, and the Congress is now doing it. I am very, very pleased at that, because at the very least, while we won't have Social Security coverage forever, we're gradually setting aside the surplus revenues and designating them as sacrosanct for the Social Security and Medicare trust fund. We are ensuring that the deadline when those programs ultimately go broke, even if we don't address the fundamental problems will be pushed further and further into the future.

And that's a very significant change. So I hope Congress will stay on track with that particular change.

As far as your question of the committees is concerned, I look around here and counted, I think, 56 members on the Budget Committee. I bet you don't need that many members. I bet the Appropriations Committee doesn't need 64 members or whatever they have. I bet the Infrastructure Committee doesn't need the 82 members that it has.

That phenomenon has existed in increasing numbers every year and gets worse with each close election and it ultimately has to be changed. But you will not change it now, or after any close election. The only way you're going to get it under control is to have one party blow out the other. That's the only way it's going to happen.

Then the new Speaker for the Majority party has to say, "These committees are too doggone big, and they have to be reduced. And by the way, the losing party, you're out of luck, because you're going to have a lot fewer seats!" The sitting party simply will not replace the seats that have been lost. That way you'll get the committee sizes down.

Why is that important? It is important because as you say, you can't be in every place at once. I think every Member ought to have two committees, and that anything more than two committees is unworkable. You ought to have a limit on the number of subcommittees, four, five or six, to each Member. Four is probably a good number. Then Members can do their work. Otherwise, they're just shooting the breeze.

Chairman NUSSLE. We're working on that blowout reform that you're speaking of and will get back to you.

Mr. LIVINGSTON. Notice, Mr. Chairman, those were non-partisan comments.

Chairman NUSSLE. We noticed that. Mr. Moore.

Mr. MOORE. I appreciate the testimony of each of the distinguished panelists here. I think this is anything but boring, too.

I had a proposal last year that would have, and I guess I'm talking to Congressman Livingston here, because he mentioned the smoke and mirrors, I guess, of 10 year budgets, and really the difficulty in projecting what's going to happen 10 years from now. I had an amendment, a proposed amendment, last year that would have gone back to a 5-year budgeting process, and also an instruction to the Ways and Means Committee that any change to revenue

reducing laws would be phased in over 5 years. I'm going to point my finger at everybody on this side and three fingers back at me, because I voted for the tax cut bill as well.

But we passed a tax cut law that essentially says, we're going to repeal the estate tax. And what we did was phase in a repeal over 10 years and finally repeal it in the eleventh year beyond the 10 year budget window, and then sunset it the next year, which is highly deceptive to the people in this country. I just don't think we as an institution should be doing that. When we've set these 10 year windows out, we're just tempted to try to do that to make this $1.35 trillion tax cut fit within that 10 year period.

And by the same token, what we said was, we're going to fix or repeal the marriage penalty tax, and in essence what we did was do that, but we waited until 2005 to even start addressing that.

So I think we need to, as an institution, and again, I'm being critical of myself, not just you, us in Congress, I think, need to start being more honest with the people in this country in terms of the budget process and in terms of the appropriations process, especially the budget process. I'd like to see us on that.

I told Mr. Livingston the first time I met him that right after I was elected in November 1998, I read in the Kansas City Star that he had proposed, he was going to be the next Speaker of the House, to take Social Security out of the unified budget. I told my staff—my meager staff at that time, I was just starting to hire—I want to sign on that bill, that's a good idea, I don't care if it's a Republican idea or Democrat idea, it's a good idea and it should be the law.

So when he unfortunately didn't stay in Congress and I couldn't call him Mr. Speaker, I had to put my name on his proposal. I learned very quickly that being a member of the minority party, sometimes your legislative proposals don't go far. It would have been law had he still been in Congress.

But my point is, I think, and I guess I'd just like to ask the question very briefly to each of you, to comment on going back to a 5-year budget. I sort of heard Mr. Livingston talk about this. But it just seems to me, I guess, that it's a lot more honest, a lot more workable, and very quickly, I want to read one thing here.

The first 10 year projections made in 1992 predicted a deficit of $407 billion for fiscal year 2002. In January of this year, CBO projected a fiscal year 2000 surplus of $313 billion, which is a disparity of over $700 billion. I think that just to me at least points out the difficulty in trying to project out 10 years from now what's going to be happening in our country in terms of the economy. So I guess I'd just like to hear your comments briefly, each of the panelists, if I can, on a 5-year budget process.

Mr. Reischauer.

Mr. REISCHAUER. I guess I'm at a bit at a disadvantage, because I'm one of the fellows who brought you the 10 year process. We started it at the Congressional Budget Office for a very particular reason, and that was that in 1990, Congress passed a deficit reduction act, many provisions of which expired at the end of 1995. And had we stopped the projections at 5 years, it would have given the false impression that we were home free. Of course, the economy didn't turn out as expected, so that was not the case, anyway.

But it was an attempt to point out that temporary measures adopted by the Congress would have to be renewed and added to if you wanted to maintain a balanced budget.

I share your concerns about the uncertainty of budget projections. But that doesn't mean, I think, that we should close our eyes to the best estimates. Whether we should have enforceable procedures that carry out 10 years is another matter. But before I went along with a 5-year budget window, I would want a rule that said, all legislation must be fully implemented by year three and not sunsetted in year four or five.

Mr. LIVINGSTON. Thanks, Mr. Moore. Obviously, I do feel that it ought to be shortened. I would even shorten it lower than the 5 years. On your comment about the tax cut, obviously I would support the tax cut and any others that you happen to be able to pass, the sooner the better.

But I have to tell you just a little story about a former colleague, friend of perhaps all of ours, who told me recently regarding the point that was made about the estate tax. He said, "You know, I'm getting on up there." He's 74 years old. He said, "I look at this tax code, and I realize, I've got to die in 2010." He said, "if I don't, my kids are going to kill me." [Laughter.]

Mr. FRENZEL. I think that Bob Reischauer has a very good point. We do need analysis, you have to know what the costs are. The reason we went to five years and ultimately to ten, it seems to me, was we had all these wonderful authorizers, not appropriators, who built these back-end loaded programs that exploded in the out years. In those days it wasn't the tax problem, it was an expense problem.

But we had the same trouble in taxes. I can remember, I served on the Ways and Means Committee. Every year we would let certain taxes expire for budget purposes. Everybody knew, that certain tax credits, particularly the RD&E credit, were going to be extended, but because they fit the budget that way, we let them go appear to expire annually.

So you need to have the information. Whether you decide five or ten is the right number of years, my understanding is that the problem is with the Senate. They got a Byrd Rules problem if you don't do 10 years. So you have to go over to the Senate and make your case over there if you want to get it back to five.

I still think it's valuable to know what happens in those out years, as Bob has suggested. Because everybody, whether it's taxes or spending, every smart Congressman is going to back-end-load his program if he can get away with it.

Chairman NUSSLE. Mr. Gutknecht.

Mr. GUTKNECHT. Thank you, Mr. Chairman. I want to thank staff and particularly our distinguished panel for coming in today and sharing some of their insight.

Mr. Frenzel, I think you were fortunate, as I was, to serve in the State legislature back in Minnesota. Talking about legislative reform, it strikes me how we seem to be able to get things done in the State legislature in a much shorter period of time. I apologize, I've been in and out, because I have an Agriculture Committee meeting that's going on at exactly the same time this committee was meeting.

In the State legislature, this was before computers, they figured out that if you served on the tax committee you couldn't also serve on the regulated industries committee, because they both met at 8 o'clock. Then at 10 o'clock there was another set of committees that met, then at noon or 1 o'clock we went into full session. If you needed additional hearings, they had them in the evening.

Now, occasionally you'd have two hearings going on in the evenings. But it was just amazing how much work we could get done under that regimen. And as I say, that was done before they even had computers. This was all figured out by staff that if you were on regulated industries, you couldn't be on taxes, or if you were on—I can't even remember the names of all the committees now.

But in some way we got it all done. And I do agree with what Mr. Livingston said, we do need legislative reform. I think the way this system works here in Washington leaves a whole lot to be desired, and we could learn a lot from the States.

Mr. Frenzel, would you want to comment on that? I think you had some experience just a few years ago.

Mr. FRENZEL. I would agree with you. We didn't have computers. A scratch pad and a lead pencil worked just fine to figure out that you couldn't put a person on six or eight committees and expect the person or the committees to do any good.

And if the States could figure that out, certainly one would think the Federal Government could as well. The difficulty of course is that people get slotted on committees, they think that's a big deal and they don't ever want to give up one that they're assigned to. If they have two, they want three, and if they have three, they want four. Like everything else in this world, a little discipline is required.

But you mentioned the legislature. Let me go back to the point that somebody raised, that in the second session of a biennial session, a Governor would have great powers. Minnesota is known as a legislative State. While we do allow the Governor and some legislative leaders to make changes in the second year of the biennium, or did, nobody ever accused the Governor of controling the money or doing the legislature's job.

So yes, there's a way to do it. It takes discipline, it takes a willingness to make the assignment. That's as tough as changing jurisdiction on committees.

Mr. GUTKNECHT. It seems to me, I really believe that you could be very helpful in maybe moving this, the whole thing forward.

Mr. FRENZEL. You'll have the Livingston-Frenzel vote.

Mr. GUTKNECHT. That sounds good to me. But one of the real problems we're potentially going to face this year, have faced in previous years and in some respects, gives the chief executive enormous bargaining authority, at least it has in the past, over the budget negotiations in the "end game," is the now threat of a Government shutdown. And I'm sorry if I missed, and I certainly don't ask you to be redundant, I can read it in the record.

But we would appreciate any advice that particularly you would have what we can do between now and September 15th to begin perhaps some kind of reforms that preempt the notion that we're going to hold a gun to the heads of all the Federal employees and

say, if we don't get our way, we're going to shoot this one in the head. Because that's essentially what happens.

I see my time has almost expired, so you have 1 minute to deal with that very important issue.

Mr. LIVINGSTON. Thank you, Mr. Gutknecht. I understand, and I just learned this morning, that if you don't pass or comply with the Budget Act because of the tax bill provisions that you may be many billions, perhaps as many as $78 billion, short at the end of the year.

I would urge you and Congress to go ahead and meet that responsibility now rather than later because at the end of the year if you are $70 billion out and you say "Take it out of discretionary," you are going to have a very hard time.

But apart from that, and more institutionally, I would suggest to you that the prospect of government closure is not all bad, not because I want to see government shut down, but it is the Sword of Damocles that hangs over the head of every Member of Congress to get the job done.

When you don't have to meet the deadlines, you don't meet the deadlines. It goes back to my business about biennial budgeting. Congress collectively procrastinates. It is no one person; it is just collective procrastination, and Congress is not going to do the job until they absolutely have to.

You can look at one committee after another. They basically don't pass bills until they absolutely have to do it. In the appropriations process, that is especially true. If you see that old Sword of Damocles, focus the attention of Members of Congress, and the attention of the President, they will come to the table, and finish their business.

One of the big objections I have had with that propaosal to "never close government services," I have forgotten what it was called, but one of our Members offers it all the time. But it is to say, "Oh, we are never going to close down government."

What that means is you never have to reach a resolution on appropriations and you just operate the government on a continuing resolution year after year after year. I think that is an abdication of responsibility. It is a refusal to prioritize between good programs and bad programs. It is just unworkable.

Accept the fact that if you don't do your job, the government will shut down. Then you will get the job done.

Mr. FRENZEL. I do think its right that CRs are worse than shutdowns. I like to have a little pressure out there building for Congress and the President. There is no way to bulletproof yourself against a shutdown.

Pretty clearly, if you get the appropriations to the President in a timely way, you are going to lessen any possibility. The problem is when you are sitting here with a five-vote majority in the House and a no-vote majority in the Senate, it is pretty hard to move stuff along.

I don't know how, in that kind of environment, how you can do it. I served the Minority for a long time. The Democrats had very large majority. By passing their bills promptly, they could sustain vetoes by the President and even vetoes that were sustained by the Congress and then re-pass them later with small changes made.

I remember President Ford vetoed six appropriation bills in a row. Every one of them was sustained. Every one of them was repassed very promptly, a couple after the turn of the fiscal year. The Congress had to cut some spending, but the enacted bills were very similar to the vetored bills.

If you can get the process moving you will do it better and of course part of it depends on you, how quickly you get your budget resolution passed so the appropriators can get back to work. But that is the only way I know.

To tell you the truth, before President Clinton stuffed the Republicans in 1995, the general conventional wisdom around here was that a potential closing of government put more pressure on the President than on the Congress. Unfortunately, Clinton proved to be smarter than we were. But it works both ways.

Chairman NUSSLE. Mr. Moran.

Mr. MORAN. I want to thank our three witnesses for taking the time out to share their thoughts with us today and especially for their candor.

I was a Senate Appropriations staffer under the chair of the Senate Appropriations Committee in the early 1970's when the Budget Act legislation that created the Budget Committee was established. What Senator Magnuson predicted then, I think, is about to come around full circle.

I do want to ask the former chair of the Appropriations Committee and the former chair of the Budget Committee what they feel about the language that was in the most recently passed budget resolution giving the chairs of the Budget Committee the ability to second-guess or determine the definition of emergency spending even if their definition is at odds with the Appropriations chairs. Chairman Nussle can reinterpret that, but that is the way it is seen, I think, the way it is intended to work. As we speak, the supplemental appropriations bill is being considered. Most of it is classified as emergency spending. Much of it is anything but. Much of the reform efforts that have transpired over the last generation would lead you to become fairly cynical.

They have had very marginal improvement on the process, although I think the PAYGO mechanism has been acting as something of a break and has subjected some greater sense of fiscal responsibility.

But I think in large part we are focusing on trees without looking at the forest. I think the paradigm really has changed and I want to refer to the charts that Chairman Livingston has shown here because they do illustrate the reality that much of what we talk about in the budget process and the appropriations process, particularly, is become moot. Of the mandatory spending, including interest on the debt, it is now two-thirds of the budget. It should also be recognized that of the third of the budget that is left, 95 percent of the appropriations governing that are incremental.

The one aspect of it that is not incremental are the so-called special projects that we get beaten up in the newspapers for, but those actually are a reflection of what individual Members priorities are. They are not incremental. One of them is the Wilson Bridge, for example, which is considered a pork project, but it would stop the interstate commerce along the east coast if we don't get that

money. So, I think that some of the efforts and the alleged deeds for reform are a bit overstated.

With regard to biennial budgeting, it would require the budget to be put together 30 months in advance. I don't understand. I can't imagine how we could responsibly expect the executive branch to under take that effort.

The reality is that if we do it right under good leadership and particularly in a constructive, cooperative attitude between both parties, we can get the appropriations bills done on time. If we are going to exercise oversight, the only way to get the executive branch to really pay attention to it is to hold up the funding capability. Otherwise, it is an exercise for media attention, but little else.

If it is within the context of the appropriations process and it can actually cost them if they don't comply with the intent of Congress and particularly the appropriators, then oversight means something and it works.

So, those are some comments. I guess the only real question that I would want to get from Mr. Reischauer—because he has been very much involved in this process—is whether you think there may not be a clash coming between the budget and the appropriators instigated by the ability in the last budget resolution to determine on the part of the budget chairman what is emergency spending.

I think Chairman Livingston's, Speaker Livingston's comments might be most critical given your most recent perspective as chair of the committee.

Mr. Livingston?

Mr. LIVINGSTON. Thank you, Mr. Moran. I think that is a real issue for Congress to hash out. I don't think that there is any one answer. I think the answer is in the collective wisdom of Congress, reached with all of the partisan debate that comes to the floor.

"Emergency spending" can clearly be misused, and can be put on anything that you don't want to encompass within the budget. That is a way to evade the budget caps. So, you declare it emergency spending.

Both parties can be equally culpable, depending on who is calling the shots on what day. But the only way to hash it out is for you to meet and let the majority win.

Mr. MORAN. What would you do if you were still chairman?

Mr. LIVINGSTON. I would probably do the same thing you would, I mean, I would say my projects are emergencies.

But you made another point that I mentioned and I didn't highlight it, but you highlighted it very well. By the time you eliminate the mandatory spending of interest and all the entitlements that we have thrown into process that we rarely review and realize that of discretionary spending, half of which is defense, which we are always raising whenever we can, even though since 1962, defense it has gone from half of the budget to less than one-sixth.

By the time you start realizing what programs you are actually going to be adusted up or down with new priorities you are talking about 1 percent of the budget, only 1 percent. That illustrates, I think, more clearly than anything else, that the budget really is out of control.

We are spending time year-round on the floor on appropriations bills and the Budget Act, only to change 1 percent of the budget, more or less? Something is wrong here. We need to prioritize.

When I say we need to assess priorities, I mean the whole budget, not just that 1 percent.

Chairman NUSSLE. We have two votes on the floor or a series of votes. So, as a result, we are going to have to end this panel. But before we do so, before we go and vote, I know Mr. Toomey and Mr. Clement have been here a long time.

Let us go to Mr. Toomey first for a question or two and then we will see if there are any others before we go vote.

Mr. TOOMEY. I think I can do this in less than my allotted time. I wanted to start with a statistic that I have. If you include what is in the Budget Resolution for 2002, it is my understanding that during the 4 years before the surplus emerged, say in 1993 through 1997, total discretionary actually declined about 2.2 percent.

Over the 4 years since the surplus emerged, discretionary spending has increased about 24 percent. We could quibble about the exact numbers. But the point is, I think this is extremely interesting and I think it reflects that prior to the emergence of the surplus there was at least some degree of consensus that one of the priorities of the budget process ought to be to reach a balance, to eliminate the persistent deficits and that we ought to find a way to do that.

I think arguably previous budget process measures enacted before I got here had that bias sort of built into them, to find a way to bias the system in the direction of a balance.

It seems to me that now that we have crossed this threshold into the era of surpluses, we don't have a consensus on what to do with the surplus. Some of us want to cut taxes massively. Some of us want to spend more on entitlements; others on discretionary and others to pay down debt.

My question is, absent a consensus on what to do with the surplus, can we really reach meaningful budget process reform that is going to work? Is that an important precondition or not?

Mr. REISCHAUER. Yes, I think you can. The issue is not what you do with the surplus. It is what you define the surplus to be. Then the legislative process, the process with the executive branch, will involve fighting out each year what you do with the resources that you think are excess in a sense.

Do you give them back as a tax cut? Do you save them for some future investment? Do you spend them on some discretionary needs that are in front of the Nation now? That is what the budget process is all about. The first thing, as I suggested in my testimony, that you need to do is to define what fiscal objective you want to achieve. We have one now which is balancing the unified budget but that is irrelevant because we are so far beyond that goal at this point. That is what is causing the problem.

We have a process that was designed to achieve something that we are way beyond at this point.

I would just like to say one thing about the emergency process. I think a lot of people have slammed the misuse and abuse of the emergency process inappropriately over the last few years. That abuse and misuse is a reflection of the fact that the discretionary

spending caps have been unrealistic and this is the safety valve. This is the flexibility.

I agree completely with Mr. Livingston that what is a emergency should be in the eye of the Congress as a whole and the President because the President has to designate an activity to be an emergency, too.

What we really are saying is that there is a political consensus behind this designation, even if the Webster's dictionary would never define the particular activity as a true emergency.

Chairman NUSSLE. Mr. Clement.

Mr. CLEMENT. Thank you panel for being here today. You have been very helpful to all of us. I want to ask a question first of Mr. Livingston, my neighbor. I am one of those attracted to biennial budgeting simply because of oversight, which I think is really lacking now.

We are always trying to prioritize how much time we have to spend on appropriations so why shouldn't we have biennial budgets?

Mr. LIVINGSTON. Mr. Clement, we did touch on it. But I agree with you, prioritization is the number one responsibility of Congress when it deals with the budget, absolutely. One would think that you could have plenty of time to do that. But what I have come to believe in my cynical old age is that Congress won't do anything unless it absolutely has to.

If they don't do it, if they don't provide the oversight, if we don't have the hearings, if we don't spend the time to have those oversight hearings, which I don't think that we will, then you have just wasted time. Congress might as well be back in their districts, because the job is just not going to get done.

I would like to think it was going to be done, but with this schedule that Congress is engaged in, coming in Tuesday night and leaving Thursday afternoon, it is impossible. You can't have the hearings; there is no time for them.

If you wanted to come in four and a half days a week and say we are definitely going to have oversight hearings and this is the way it is going to be, then I would have more faith it would get done. Otherwise, I think you are just putting off the inevitable every other year.

I believe that you have to provide oversight all the time. Everything Congress does should involve oversight and prioritization. It is a constant process. The country is so complex that it needs attention year in and year out, day after day.

With a biennial budget, you can push off the tough decisions next year.

Mr. CLEMENT. As you know, the argument also, on behalf of some like Howard Baker and others in the past is that we ought to meet half the time, you know, have a part-time Congress.

Mr. LIVINGSTON. Well, you can make an argument for that, I don't know how much you will get done.

Mr. FRENZEL. Mr. Clement, I have some similar feelings. I am in technical support of a biennial budget. One of the reasons for having it is that it would allow time to do oversight in the off year. Like Bob, however, I have been around here long enough and wait-

ed in vain for any oversight, particularly from authorizing committees.

My own judgment is that it only gets done in the Appropriations Committee anyway. So I am not really optimistic that alleged virtue of the biennial budget would work. But, I will pray heartily for it.

Chairman NUSSLE. I appreciate members allowing us to accomplish this before the votes.

Panelists, thank you very much for your time and testimony today. We look forward to your continued interest in this.

The committee will stand in recess subject to these votes. Then we will take up the hearing as soon as the votes are completed on the floor.

[Recess.]

Chairman NUSSLE. I call the hearing back to order and to resume. We are now at a combined Panel 2 and 3. It is actually somewhat poetic that we need to do this because it falls right in line with the counsel that was given to us by the witnesses on the first panel, that there is just too much going on around here.

We are bringing Members from all sorts of committees, dividing their time and their concern. As a result, we had Members that were going to be testifying today, the very distinguished Ranking Member of the House Appropriations Committee is in the middle of a markup, as is appropriate this time of year.

Mr. Obey caught me on the floor last night. He is very passionate about budget issues and budget reform. He offered if it can't be done at some official hearing, he would love the opportunity to just talk to the Members at some time. I know that will occur.

Chris Cox is in a markup as well. He will be back. When he gets here we will try to fit him in because I know he has votes. I do not suggest that our other witnesses don't have time constraints. They do. They are very busy and we very much appreciate their attendance.

Barry Anderson carried the ball for the Congressional Budget Office earlier this year and did an expert job. We really appreciate not only your work at that point in time in getting our budget ready for my first go at it, I appreciate that personally as well.

Susan Irving, who is the Director of the Federal Budget Analysis from the General Accounting Office, has always been a real partner with the Budget Committee and with the House in total, but particularly with the Budget Committee. We very much appreciate the work that GAO continues to do on behalf of the Congress.

We are here, as you know, talking about Federal budget process, structural reform. You have some good ideas, I know, from your testimony. Your testimony will be in the record in total and you may summarize as you would like.

We will begin with you, Mr. Anderson. Welcome.

STATEMENT OF BARRY B. ANDERSON, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE, SUSAN J. IRVING, DIRECTOR FOR FEDERAL BUDGET ANALYSIS, GENERAL ACCOUNTING OFFICE, AND HON. CHRISTOPHER COX, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

STATEMENT OF BARRY A. ANDERSON

Mr. ANDERSON. Thank you. Thank you very much, Chairman Nussle and Congressman Price. Thank you for having me here to testify today on structural reform of the Federal budget process.

Next year, as you know, the major provisions of the Budget Enforcement Act will expire. That law has provided the basic enforcement framework for lawmakers' budgetary deliberations for the past decade.

As lawmakers consider whether or how it should be extended, they should also consider other changes in the budget process and in the fundamental budget concepts that would address broader concerns that have surfaced over the years.

Today in my testimony I would like to concentrate not on what the others have testified before me. That is, I would not like to spend time on the BEA framework of discretionary spending limits and PAYGO and the enforcement mechanisms and other changes related to that.

Instead, I would like to spend some time talking about a reevaluation of the broad budget concepts on which the Federal budget process is based. Budget concepts were last reviewed comprehensively in 1967 as part of President Johnson's Commission on Budget Concepts.

During the intervening years, changes in the Federal budget and modern legislative proposals affecting the budget have raised significant issues about appropriate budgetary treatment that are not covered by the commission's recommendations.

This suggests that a new budget concepts commission or some other form of consensus is really important. So, in addition to extending the BEA enforcement mechanism and considering changes to the budget process, I suggest that lawmakers should, as part of any structural reform, revisit the framework of fundamental budget concepts and accounting principles.

Although the guidelines of the 1967 commission continue to apply broadly to the budget process, they do not accommodate many of today's complex budget proposals and institutions.

For example, lawmakers and budget scorekeepers now face four fundamental questions: One, what is the appropriate scope of the budget? The commission's recommendations that the budget should include all Federal activities provides little or no guidance on how to treat areas and entities such as Amtrack.

Two, what should be classified as spending or as an offset to taxes? The line dividing Federal spending and revenues has become blurred as shown by the increasing use of so-called refundable tax credits and certain fees as devices for expanding budgetary resources for spending programs.

Three, does the use of trust funds for tracking earmarked revenues confuse lawmakers and the public, or does it do more fundamental good? The proliferation of Federal trust funds, which now

exceed over 200, raises important questions about the extent to which these and other earmarked devices in the Federal budget may distort overall budgetary choices that lawmakers make each year.

Four, how do we accurately measure the Federal Government's effect on the economy? The purchase and sale of non-Federal debt and equities, important components of many proposals to reform Social Security raise thorny issues about budgetary treatment that are important for estimating the costs associated with those proposals.

Let me address each of these questions in turn very briefly. First of all, with respect to budget coverage, as the 1967 commission recommended, the Federal budget should encompass the full scope of programs. It suggested certain broad criteria to make such determinations. For example, who owns an entity? Who selects the managers? Do the Congress and the President have control over the entities programs and budget or are its policies set primarily in response to private owners and not to accomplish some broader purpose?

It is these kind of fundamental questions that need to be addressed when looking at such arrangements as we have now, for example, with Amtrak. Do we own and control Amtrack in any sense or through its preferred stock?

In addition, to use the example of Amtrak, which has not earned profits in its more than 30-years of existence, is that the kind of company that really could exist outside the rubric of the Federal Government?

Next, I'll address the line between spending and revenues. Over the 30-plus years since the Budget Concepts Commission, that line has become more muddled, particularly with the creation of refundable tax credits. Right now we have tax credits for alternative fuels or reforestation or education for income support. The generous use of tax credits understates the size of government and distorts information about Federal spending priorities.

Third, with respect to trust funds, the Federal Government accounts for activities through two broad categories of funds; Federal funds and trust funds. Trust funds are generally created to earmark receipts for specific programs and purposes.

The General Accounting Office has stated that there are currently over 200 trust funds. But trust funds differ fundamentally in the Federal Government than those in the private sector.

For one thing, claims against private trust funds are limited by the value of the assets in the trust. That is not true with Federal trust funds. They are mere accounting mechanisms that track the amount of fees and collections and the amount of associated expenditures.

In addition, when trust fund receipts exceed expenditures, the government books show trust fund balances. However, those balances are claims on the Treasury that, when redeemed, will have to be financed either by raising taxes, cutting spending, or borrowing from the public.

The existence of trust fund balances in the Federal Government is much different from the existence of balances in the private sector.

Furthermore, the beneficiaries of private trust funds own the trust fund's assets. That is not true for Federal trust funds. The beneficiaries of Social Security or Medicare do not own the assets. The benificiaries do posses the Federal Government's obligation to them to pay certain benefits, but they do not own the assets.

The last point I want to talk about is, the budgetary treatment of government investments in private securities. Government purchases of private securities, including corporate bonds and equities, pose an interesting and unprecedented dilemma for the Federal budget.

Should those purchases be part of the Federal Government expenditures? Right now we treat government purchases of financial securities the same way we treat purchases of non-financial assets, as a cash outlay. But there is an argument that because the purpose of financial assets is different from that of non-financial assets, they should not be treated as an outlay.

If we were to not treat them as an outlay however, we would disguise the extent to which the Federal Government intervenes in the economy, and this treatment. That would be counter to one of the major principles of the 1967 Budget Concepts Commission.

These are four important issues that I think need to be addressed, consistent with the review that the committee is doing now on the extension of the Budget Enforcement Act.

There are implementations for trust fund accounting in general and particularly for State reform that are very important. Also important is that I don't think it is appropriate for the Congressional Budget Office, the General Accounting Office, the Office of Management and Budget or scorekeepers to address these issue unilaterally.

We need the guidance of the Congress and the President on how to treat these fundamental budget concepts. Thank you very much.

[The prepared statement of Mr. Anderson follows:]

PREPARED STATEMENT OF BARRY B. ANDERSON, DEPUTY DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Nussle, Congressman Spratt, and members of the committee, thank you for inviting me to testify today on structural reform of the Federal budget process. Next year, the major provisions of the Budget Enforcement Act of 1990 (BEA) will expire. That law has provided the basic enforcement framework for lawmakers' budgetary deliberations for the past decade. As lawmakers consider whether or how it should be extended, they could also consider other changes in the budget process and in fundamental budget concepts that would address broader concerns that have surfaced over the years.

My testimony today will make the following major points:

• Despite recent difficulties, the BEA framework of discretionary spending limits and Pay-As-You-Go (PAYGO) enforcement has generally promoted budget discipline. Also, broader changes in the budget process, such as certain changes proposed in the Nussle-Cardin budget reform legislation of the 106th Congress (H.R. 853), could help to improve that process.

• It is time to reevaluate the broad budget concepts on which the Federal budget process is based. Budget concepts were last reviewed comprehensively in 1967, by the President's Commission on Budget Concepts. During the intervening years, changes in the Federal budget and in modern legislative proposals affecting the budget have raised significant issues about appropriate budgetary treatment that are not covered by the commission's recommendations. This suggests that a new budget concepts commission, or some other forum for reaching a consensus on those issues, may be needed.

EXTENDING THE BEA AND OTHER BUDGET PROCESS CHANGES

Lawmakers enacted the Budget Enforcement Act as part of a multiyear agreement to reduce deficits. That law amended the Balanced Budget and Emergency Deficit Control Act of 1985, replacing its regimen of fixed deficit targets with a new system of procedures for controlling deficits. The BEA established statutory limits on discretionary spending and a PAYGO requirement for new mandatory spending and revenue laws. In general, the BEA disciplines now scheduled to expire at the end of fiscal year 2002 were intended to ensure that new spending and revenue laws did not increase projected deficits. The discretionary caps and PAYGO requirement (like the deficit targets before them) are enforced by sequestration, a process that imposes automatic, generally across-the-board cuts in spending if those disciplines are not met.

As the Congressional Budget Office (CBO) testified before the committee last month, the BEA framework has provided a solid foundation for budget discipline for most of the past decade. From 1991 through 1997, the law's limits on discretionary appropriations and its PAYGO requirement helped to control deficits. The growth of total discretionary outlays was held well below the overall rate of inflation. (Within that total, however, growing appropriations for many nondefense discretionary accounts were offset by a steep decline in defense spending in the aftermath of the cold war.) New mandatory spending and revenue laws enacted during the period did not increase net deficits.

With the emergence in 1998 of large and growing surpluses, however, the fiscal environment changed. Yet the BEA framework, which had been recently extended through 2002 by the 1997 Balanced Budget Act, remained in effect. Surpluses put increasing pressure on lawmakers to circumvent the discretionary spending caps and the PAYGO requirement, making those disciplines much less effective.

In 1999 and 2000, lawmakers enacted record levels of emergency appropriations which are effectively exempt from budget enforcement procedures and used other funding devices to boost discretionary spending well above the caps set in 1997. Although lawmakers set higher caps for 2001, CBO's baseline estimates of total discretionary spending for 2002 exceed the adjusted caps, which lawmakers have not yet reset, by more than $100 billion (for both budget authority and outlays).

Despite recent experience, the underlying philosophy of the Budget Enforcement Act that appropriations should be enacted within enforceable limits, and the estimated costs of new mandatory spending and tax legislation should generally be offset has proven to be effective. It could continue to be an important component of overall budget discipline. Even in a period of surpluses, maintaining an effective framework of budget discipline is an important hedge against uncertain budget projections and political pressure to increase spending.

As lawmakers consider extending the BEA, they may also want to make changes to improve its framework. For example, they may want to add specific criteria in law that would set out the purposes for which the emergency spending designation should be used. In 1991, as part of a mandated report on the costs of certain emergencies in that year, the Office of Management and Budget identified several criteria used in the executive branch for deciding the type of provisions that would qualify for emergency appropriations.[1] The criteria specify that the emergency designation should be used only for spending that is necessary, sudden, urgent, unforeseen, and temporary. They were never codified, and in the past few years lawmakers have chosen to disregard them. Formal guidelines codified into law would help to inform the debate over emergency spending and to minimize abuses of the emergency spending designation.

Lawmakers may also wish to adapt the BEA framework to an environment of surpluses. Many lawmakers have expressed their commitment to preserving off-budget surpluses for debt reduction. The BEA framework could be modified to enable lawmakers to enact legislation that would use some portion of the projected on-budget (non-Social Security) surpluses for new spending or revenue policies, while protecting the off-budget surpluses using the BEA's sequestration process.

Because the context for the coming debate about extending the BEA is likely to differ considerably from the context in earlier years, it may also prompt a wider look at the budget process. Indeed, last year, the House considered legislation that would have changed the process in ways that could help to improve budgetary decision-making. That legislation (H.R. 853) was developed by the Task Force on Budget Process (the Nussle-Cardin task force) of the House Budget and Rules Committees.

[1] Office of Management and Budget, *Report on the costs of Domestic and International Emergencies and on the Threats Posed by the Kuwaiti Oil Fires as Required by P.L. 102–55* (June 1991).

For example, a number of lawmakers worry that the budget process is too complex and confusing; they would like to make it simpler, easier to understand, and more efficient. They contend that excessive complexity in the budget process, among other factors, has led to delays in enacting budget legislation especially appropriation laws. They favor converting the annual budget cycle to a 2-year timetable, providing for automatic continuing appropriations, and turning the Congressional budget resolution into a joint resolution signed by the President (proposals that were considered during the debate on H.R. 853). Although those proposals may help to ease delays and reduce complexity, no procedural changes can guarantee agreement on budget policies.

REVIEWING FEDERAL BUDGET CONCEPTS

In addition to extending the BEA enforcement mechanisms and considering other changes to the budget process, lawmakers should, as part of any structural reform, revisit the framework of fundamental budget concepts and accounting principles that underlies their annual deliberations over the Federal budget.

The basic accounting rules generally followed in the modern budget process are set forth in the 1967 *Report of the President's Commission on Budget Concepts.*[2] Although the report has no legal status, it remains to this day the most authoritative statement on Federal budgetary accounting concepts and principles. The commission's most important recommendation was for a comprehensive Federal budget. It recommended that the budget cover the full range of Federal activities and that even borderline activities and transactions be covered unless there were compelling reasons to exclude them.

Although the commission's guidelines continue to apply broadly to the budget process, they do not accommodate many of today's complex budget proposals and institutions. Lawmakers and budget scorekeepers now face fundamental questions:

- What is the appropriate scope of the budget? The commission's recommendation that the budget should include all Federal activities provides little or no guidance on how to treat various public/private partnerships such as Amtrak and similar hybrid entities.
- When should a program be classified as spending rather than an offset to taxes? The line dividing Federal spending and revenue law has become blurred, as shown by the increasing use of so-called refundable tax credits and certain fees as devices for expanding budgetary resources for spending programs.
- Does the use of trust funds for tracking earmarked revenue confuse lawmakers and the public? The proliferation of Federal trust funds, which now exceed 200, raises important questions about the extent to which those and other earmarking devices in the Federal budget may distort the overall budgetary choices that lawmakers face each year.
- How do we accurately measure the Federal Government's effect on the economy? The purchase and sale of non-Federal debt and equities, important components of some proposals to reform Social Security, raise thorny issues of budgetary treatment that are important for estimating the costs associated with those proposals.

Those questions are examined in more detail below.

BUDGET COVERAGE

As the 1967 Commission recommended, the Federal budget should encompass the full scope of Federal programs and entities. It suggested certain broad criteria to help make such determinations. For example, who owns an entity and selects the managers? Do the Congress and the President have control over an entity's program and budget, or are its policies set primarily in response to private owners and not to accomplish some broader public purpose?

Despite the broad scope of the commission's guidelines, they do not clarify the appropriate budgetary treatment of certain partnerships between the Federal Government and the private sector that appear to be largely Federally-controlled. For example, the business operations of Amtrak are generally excluded from the Federal budget, but Amtrak's board members are appointed by the President, its preferred stock is owned by the Department of Transportation, and the Federal Government controls the routes that Amtrak uses. In addition, Amtrak has not earned any profit in its more than 20 years of existence. Our economic system would not permit any truly private entity to continue under those conditions. Other examples of hybrid,

[2] President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (October 1967).

public/private entities include the Metropolitan Washington Airports Authority and agricultural marketing boards.

If lawmakers determine that the budget should continue excluding such entities, then perhaps a new or more complete list of criteria should be developed to better distinguish between Federal and non-Federal entities for budgetary purposes.

THE LINE BETWEEN SPENDING AND REVENUES

Over the past 30-plus years, the division between taxes and spending has become muddled. Maintaining a consistent and clear distinction in the budget between spending and taxes would give lawmakers and the public a more accurate picture of the size of the Federal Government and the amount of budgetary resources it committed.

For example, the tax code has been changed extensively in recent years to grant taxpayers credits against their tax liability for a diverse array of public policy goals. Those tax credits generally are classified as affecting receipts, but in many cases they establish benefits that may be completely unrelated to the amount of taxes otherwise due or that exceed a taxpayer's liability. Known as refundable credits, tax credits that exceed a taxpayer's liability appear to resemble spending for public policy purposes rather than receipts.

Tax credits now exist for such diverse activities as the production of alternative fuels, reforestation, education, and income support. The generous use of tax credits understates the true size of the government and distorts information about Federal spending priorities. Also, the Congress may be more willing to create a new tax credit than a new spending program.

In addition, the distinction between revenues and offsetting collections, which are treated as offsets to spending, is also a concern. Offsetting collections from the public typically are linked to a business-type activity or service provided to the public by a Federal agency. In the budget process, they are distinguished from revenues collected under the Federal Government's sovereign power to tax or regulate. Over the years, laws have been enacted that classify certain revenues as offsetting collections. However, revenues that are improperly classified as an offset to spending provide a distorted picture of government finances.

A prominent example is fees collected by the Securities and Exchange Commission (SEC). Normally, those fees would be classified as revenues, not as offsetting collections, in part because they are not associated with a business-type transaction but rather collected, as are other taxes, under the government's sovereign powers. However, laws have been enacted requiring some of those fees to be counted as offsetting collections credited to the appropriation account for SEC salaries and expenses, while some existing SEC fees are recorded as governmental receipts (that is, revenues). Without such laws directing the budgetary accounting, all SEC fees would be counted as general revenues.

TRUST FUNDS

The Federal Government accounts for its activities through two broad groups of funds: Federal funds and trust funds. In general, trust funds are created in law to earmark receipts for specific programs and purposes. The General Accounting Office has identified over 200 trust funds in the Federal budget, although fewer than a dozen account for the vast majority of trust fund receipts and spending.[3]

Federal trust funds differ significantly from private-sector trust funds. For example, claims against private trust funds are limited by the value of the fund's assets. By contrast, Federal trust funds function as accounting mechanisms that record tax receipts, user fees, and other credits and associated expenditures. When trust fund receipts exceed expenditures, the government's books show trust fund balances. However, those balances are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not by itself have any impact on the government's ability to pay benefits.

Further, the beneficiary of a private trust fund usually owns the fund's income and often owns its assets. The trustees of the fund also have a fiduciary responsibility to manage the fund on behalf of its beneficiaries and cannot make unilateral changes to the provisions governing the trust. In contrast, Federal trust funds generally are owned by the Federal Government. They are created in law, and lawmakers can change those laws or repeal them.

[3] General Accounting Office, *Federal Trust and Other Earmarked Funds: Answers to Frequently Asked Questions,* GAO–01–199SP (January 2001), available at *www.gao.gov.*

Those and other distinctions between Federal and private trust funds create confusion among lawmakers and the public and cause some people to argue that the spending and revenues credited to Federal trust funds should be treated differently in the budget process. That puts pressure on lawmakers to favor those trust funds in their annual budgetary deliberations and potentially limits their flexibility in setting broad budget policies and priorities for the budget generally.

BUDGETARY TREATMENT OF PRIVATE EQUITIES

Government purchases of private securities, including corporate bonds and equities, pose an interesting and unprecedented dilemma for the Federal budget. Such purchases are a part of certain major proposals to reform Social Security.

Under current budgetary guidelines, purchases of private financial securities are recorded as cash outlays; the sales of the securities and returns such as dividends and interest payments are recorded as offsetting receipts. The budgetary treatment is the same for investments in private financial securities as it is for investments in nonfinancial assets.

On the one hand, important distinctions exist between financial and nonfinancial assets. In general, financial assets are acquired to generate a flow of income rather than to provide public services such as national security, health care, or recreation. This suggests that government purchases of private equities should be treated differently in the budget than purchases of nonfinancial assets. On the other hand, if equity purchases were not counted as outlays, the budget would not accurately reflect the level of the Federal Government's ownership and control of the private sector. That would seem to violate one of the fundamental principles of the 1967 Commission that the budget should reflect the true extent of the government's interactions with the economy.

CONCLUSIONS

On balance, the BEA framework has improved budget discipline. Extending that framework, under the right circumstances, would contribute to continued budget discipline. As lawmakers consider extending the BEA, they may wish to add criteria for the emergency spending designation and make changes that would adapt the BEA to a period of surpluses. Other changes in the budget process, such as some of those recommended in the Nussle-Cardin bill, may help to address lawmakers' broader concerns about the budget process.

As important as those concerns, however, is the issue of the status of the fundamental budget concepts that underlie the Federal budget process. Those concepts have not been comprehensively reviewed since the President's 1967 Commission on Budget Concepts. The 1967 guidelines leave unanswered a number of thorny questions about the budgetary treatment of modern budgetary legislation.

The answers to those questions have significant implications for certain major budget policy proposals, including Social Security reform, and how those proposals should be accounted for in the Federal budget. Consequently, they should not be left to budget technicians and scorekeepers to resolve. One approach would be to create a new budget concepts commission that could sort through the various options and make appropriate recommendations, much as the President's Commission did over 30 years ago. Such an approach would help lawmakers to review conceptual issues comprehensively and may help to promote a consensus on how those issues should be resolved.

Chairman NUSSLE. Thank you.

If you are prepared, Congressman Cox, I don't mean to rush you, but I also understand your time constraints.

STATEMENT OF HON. CHRISTOPHER COX

Mr. COX. Well, as you know, Mr. Chairman and Mr. Price, I was happy to be here for the morning's hearing, even as my own markup was proceeding and I barely made the vote on final passage, but missed about six recorded votes.

It was worth it because the testimony here was very, very illuminating. I learned a lot. I want to congratulate you for doing this. I know, Mr. Chairman, that you have invested a lot of intellectual energy as well as physical time in this process.

I was very happy to see our former colleagues here to help in that process, as well as an alumnus of the Congressional Budget Office.

I think it is appropriate to turn to former Members because of their unique perspective. In that spirit of looking to experience, I went back into the archives of the Policy Committee, which I currently chair. In 1975, Representative Barber Conable was the chairman of the House Republican Policy Committee. He is now a member of the History of the House Advisory Board, by the way.

On April 29, 1975, in the wake of the enactment of the 1974 Budget Act and on the threshold of the floor debate on the first resolution on the budget, the first in both senses. It was literally the first. In this committee you unanimously approved a prescient statement which I have made available to you. It should be on your desk. I will just read from the first paragraph of that statement and then its conclusion, if I might.

"Last year," which would have been 1974, "Congress undertook a major overhaul of the budget process. Instead of considering each spending measure separately on its merits and then adding them all up at the end of the year to find out the total, Congress, under the new procedure, is supposed to set spending and revenue totals in advance and then discipline itself to see that individual spending and revenue measures adhere to the overall plan."

So far, so good. That is what the 1974 Act was supposed to do. It is saying simply "Budget first and spend second," a sound discipline when one adheres to it.

In 1975, however, things didn't turn out so well. The statement concluded as follows:

"The Budget Committee's first resolution comes just in time to reveal a government out of control and sliding into a state of fiscal disaster. Major legislative efforts are needed to rein in 'uncontrollable items,' and to establish a new pattern of legislative authorizations and appropriations. The new budget procedure is no panacea.

"The first resolution on the budget makes it clear that our whole legislative process must be rededicated to a will to govern."

So, at the inception what they saw is that procedures not withstanding, it was going to take sheer political will in order to exert any budget discipline. That, a quarter of century later, is where we find ourselves.

We have a process that is well designed to the extent that it encourages us to have a budget first and spend second. But, because it utterly lacks in enforcement, we still need to rely on sheer political will to get the job done.

Congress approved a record deficit in 1975, but the budget resolution itself didn't even predict just how bad things would get that year, how much spending would be over the limits set in that budget.

President Carter remarked—and you remember his Budget Director Burt Lance said so as well—that the new law actually stripped the President of powers to participate in the budget process and to exert fiscal discipline.

When President Reagan came to office he certainly had the political will to rein in spending, but he couldn't control it either and spending growth continued unabated.

To sustain a rate of government spending growth that has far surpassed the Nation's economic growth, the Federal Government today takes more from the national economy in taxes than at any time in our peacetime history, as you on this committee are well aware.

The fact that Congress has balanced the budget for 4 years in a row, the first time that this has happened in over 70 years, is actually a representation of what an oddity it is and how aberrational it is.

What we need to do is make it institutional and not aberrational. We need, in short, enforcement of the budgets that you on this committee enact. An effective budget process reform will make enforcement a centerpiece so that we will require ourselves to live within a budget.

Otherwise, the budget that you adopt here, the work of this committee and all of its members will amount to so much sound and fury, signifying nothing.

The budget resolution, it is an odd term because this flaccid and weak resolution is utterly lacking in resolution. It is not resolute. It is sort of Orwellian to think of it that way.

The bill that this committee worked with in the 106th Congress contained a lot of the items that were discussed today. But I want to emphasize among all of them what I believe is the most important, and that is enforcement. A super-majority vote to break the budget that Congress enacts by majority vote by choice will require that we commit ourselves in a solemn way to living within a budget.

If you can get out of the budget simply by breaking it in some other legislative enactment, as easily as you passed the budget in the first place, then there is no such thing as budget discipline.

I would also give the President line item reduction; not line item veto, but the opportunity to pare back the budget levels jointly agreed upon in a joint resolution as many of the panelists have discussed earlier today, the levels of spending originally stipulated by a majority of the Congress and signed into law by the President.

Lastly, biennial budgeting is certainly a big part of the discussion. Biennial budgeting of itself doesn't provide budget discipline, although it can. The fact that it was rejected on the floor on a nearly even split vote last year I think reflects the ambivalence that is felt about it among Democrats and Republicans alike.

This committee knows full well that if you double the period of time that you are forecasting, that the emergencies that come up will be just that much more and that the excuses and the reasons will actually be much better—who could have predicted?

Therefore budget by supplemental will become the order of the day unless you exert a discipline on supplementals that is just as sturdy as anything that we would enforce within the budget itself.

Coupled with super-majority votes and the line item reduction, a biennial budget, therefore could, in fact, enhance budget discipline.

I want to thank you for the time that you are spending on this. The President has said that budget process reform is important to him. He has made it a part of his own budget proposal.

Your leadership and your focus on this means that the stars are now aligned to get something done. We have a legacy to preserve. We have these four consecutive balanced budgets that I hope we can extend. But every day brings news that we may dip into the Social Security or Medicare trust funds. Avoiding that calamity is, in the first instance, the job of this committee. The men and women on this committee stand to thwart that calamity. You can prevent it from happening through the exertion of spending discipline.

But sheer will, sheer political will won't be enough. You have to turn from a system that relies exclusively on that to one of the institutional enforcement.

So if I can leave you with any thought at all, it is that, enforcement, enforcement, enforcement.

Thank you, Mr. Chairman.

Chairman NUSSLE. Thank you, Chairman Cox.

As one of our most consistent advocates for budget process reforms, we appreciate your willingness to come here to testify. We understand that you have other scheduling constraints. So, if you need to leave, we understand that. We appreciate your flexibility in your schedule to come and testify today.

Mr. COX. Well, Mr. Chairman, I observe that there are only two members to ask questions, so I would be happy to stay if you have any.

Chairman NUSSLE. Sounds good.

Ms. Irving, thank you very much for your attendance. Again, your entire testimony will be in the record and you may summarize as well.

STATEMENT OF SUSAN J. IRVING

Ms. IRVING. Thank you, Mr. Chairman and Mr. Price. Mr. Cox, it is always intimidating to be on a panel with someone who actually has to live in the fray that those of us who work for you talk about.

First of all, I would like to dissent from the idea that process conversations always have to be boring. It is a little like the complaint that the budget debate takes too much time. Let us stand back a minute.

The budget debate is a debate about how much of the wealth produced in this country shall be taken by its representatives to be used collectively. It is hard to believe that there is something more important to be debating, given that we are lucky enough to not be at war.

The real complaint is that we can get focused on the wrong thing. In a way I think it is quite fortuitous that this is the year the BEA expires because you have a process that was designed with the goal of getting rid of a deficit, and that is not the same process you will use for managing a surplus.

It is important to step back and recognize that the process itself need not be aimed at a specific outcome. Think about what drove the 1974 Act. It was designed to reassert Congress' role in the fiscal policy debate. That it is important and worth restating when you look at some of the proposals that appear to be designed to let Congress take a back seat in its power.

Prior to 1974, Congress was clearly a junior player in fiscal policy and in the debate about overall allocation across mission. So, the fact that the budget process has not worked perfectly as envisioned doesn't mean it hasn't made a major step forward in asserting Congressional control. As a legislative staff member, I care about that.

I am happy to answer questions on some of the specific issues you raised, but I first would like to look at some broader principles.

You cannot ask the process to determine the decisions you make—not the answers you come up with. You can ask the process to surface the right questions so that your energy and time are focused on the right issues, the important issues.

It is important that a budget process be designed to let you look at the important big macro questions, both near-term and long-term. Previous witnesses and Members talked about the uncertainty of 10-year and long-term projections, and they are right. Barry, who has to be in the business of making them—he wouldn't put a certainty estimate on his 10-year number.

But if you don't have a sense about what looms beyond the five- and even the 10-year horizon, you are not able to deal with your obligation to the future.

You want to think differently about the 2-year numbers, the 5-year numbers, the 10-year numbers which are essentially just for enforcement, the kind of situation Mr. Reischauer discussed.

But I would suggest you are also going to have to look longer than that. In a way you already do. The fight today about how much of the surplus should be used for tax cuts, for spending increases or for debt reduction is in part driven by a recognition that the long-term budget outlook looks a lot worse than the next 10 years.

You would like a budget process to help you allocate priorities across mission areas, to think about how much you want to spend on defense, on education, on income support, etc. You would like the process to help you pick tools by what works better rather than by jurisdiction. Should a goal be addressed through the tax code or through a spending program or a credit program? You want to be able to determine that in some analytic sense based on what you think will work best, not where the legislation originates.

Of course, you would like a process to provide for, enforceability, which I think is driven in part by accountability. In fact, one of the BEA's great strengths is that by separating the world into discretionary and PAYGO, you made accountability easier.

Let me just focus for a minute on the long term issue, in part because, as you know from the work we have done for you and some of your predecessors, that is a particular concern of the General Accounting Office and our head, Mr. Walker.

Again, I say that with Social Security and Medicare, the problem is not that the process has not told you there is a problem. The process has not told you how to fix it. I don't know that any process will force you to come to grips with Social Security and Medicare. Maybe if you are willing to set targets for how much of the economy you think those programs should take up or how much you would like their rate of growth slowed, the process can be used to create speed bumps.

But there are a lot of other programs where the budget today gives you the wrong signal. There are other programs which have long term cost implications. I would suggest you think about extending BEA and revising its structure, you think about improving the structure and process to include better information on the long-term cost implications of some of these programs. At the time you create, renew or expand an insurance program, it would be good to have some idea of what you are committing the government to in the future.

What about government pension programs? What about a retiree health? Today the government's budget doesn't reflect all of the long-term cost commitments made by the Federal budget.

In my written testimony I include more about issues in the expiration of the caps and their design. I think I would be about the sixth witness here today to say that caps don't work when they are unrealistic. You need an emergency escape hatch, but it is going to be broadened more the less realistic the caps are.

If you choose to extend PAYGO, you need to think about how to design it. It is entirely unrealistic to assume that none of the surplus will be used to respond to needs of society.

Finally, I think that Barry is right, that you need to think about how you want to make the concepts, the scoring and the structure match the issues that confront you today. The forum in which you want to do that I think is really an issue for you all to decide. But I think the issues are important.

I would be happy to answer any questions.

[The prepared statement of Ms. Irving follows:]

PREPARED STATEMENT OF SUSAN J. IRVING, DIRECTOR, FEDERAL BUDGET ANALYSIS, U.S. GOVERNMENT ACCOUNTING OFFICE

Mr. Chairman, Mr. Spratt, members of the committee, it is a pleasure to join you as you think about how to extend and adapt the Budget Enforcement regime. The discretionary spending limits and Pay-As-You-Go (PAYGO) mechanism established by the Budget Enforcement Act (BEA) will expire in fiscal year 2002.[1] Perhaps this timing is appropriate; although most of us would argue that some controls are necessary even in a time of surplus, the details will be different in a time of surplus than a time of deficit.

Among the issues your staff asked me to cover is whether—and if so how—the budget process can be designed to help avoid what has been described as the year-end "train wreck." Later in this statement I will talk about some of the particular ideas that have been proposed in this area. First, however, I'd like to talk a bit about what a process can and cannot do. A process can surface important issues; it can seek to focus the debate on the important choices. But it is not a substitute for substantive debate—no process can force agreement where one does not exist.

We ask a great deal of our budget process. We use it to determine aggregate fiscal policy and to allocate resources across different claims. We use it to drive program management. In the context of the Government Performance and Results Act of 1993, we turn to the budget to tell us something about the cost of obtaining a given level of results. Asking the process to take on the job of avoiding a "train wreck" may be more than can reasonably be expected.

A year-end "train wreck" is the result of failing to reach agreement—or at least a compromise acceptable to all parties—earlier in the year. Although it is possible that reaching agreement on some broad parameters early on could facilitate a smoother process, it is not clear that such an agreement will always prevent gridlock—it may just come earlier. The details of implementing broad agreements are often the subject of heated debate.

BEA, when first developed and later when it was extended, was a process established to enforce a previously reached substantive agreement. As we move from seeking to reduce the deficit to debating how much of the surplus should be used, agreement on a broad fiscal policy posture might help. How much of the surplus

should be used to meet demands for tax cuts and/or spending increases and how much for debt reduction? The Congress and the President seem to have reached a tacit agreement that the Social Security surplus should be used for debt reduction. While this agreement sets the outside parameters for the budget debate, it does not settle either the distribution between tax cuts or spending increases or the allocation of either one. It is already evident that, by itself, this broad framework is unlikely to make for smooth sailing.

While an orderly process may be important, and avoiding a "train wreck" desirable, I believe there are other important issues to consider in designing the budget process. As I have testified before, the budget represents the decisions made about a large number of often conflicting objectives that citizens want the government to address. We should not be surprised that it generates controversy. As BEA expires and you move from fighting current deficits to prudent management of surpluses, you face a wealth of options and choices. I appreciate the invitation to talk about some of these today. Some of these points are discussed more fully in our recent BEA compliance report[2] that we prepared at your request, Mr. Chairman.

PRINCIPLES FOR A BUDGET PROCESS

In the past, we have suggested four broad principles or criteria for a budget process.[3] A process should:

- provide information about the long-term impact of decisions, both macro-linking fiscal policy to the long-term economic outlook—and micro—providing recognition of the long-term spending implications of government commitments;
- provide information and be structured to focus on important macro trade-offs—e.g., between investment and consumption;
- provide information necessary to make informed trade-offs between missions (or national needs) and between the different policy tools of government (such as tax provisions, grants, and credit programs); and
- be enforceable, provide for control and accountability, and be transparent, using clear, consistent definitions.

The lack of adherence to the original BEA spending constraints in recent years, the nearing expiration of BEA, and the projection of continued and large surpluses in the coming years suggest that now may be an opportune time to think about the direction and purpose of our Nation's fiscal policy. In a time of actual and projected surpluses, the goal of zero deficit no longer applies. Rather, discussion shifts toward how to allocate surpluses among debt reduction, spending increases, and tax cuts. Only then can limits on subcategories of spending be set. Will the entire Social Security surplus be "saved"? What about the Medicare Part A surplus? In our work on other countries that also have faced the challenge of setting fiscal policy in times of surplus, we found that as part of a broad fiscal policy framework some countries adopted fiscal targets such as debt-to-gross domestic product (GDP) ratios to serve as guides for decisionmaking.

Complicating the discussion on formulating fiscal policy in a time of surplus is the fact that the long-term picture is not so good. Despite current projections that show surpluses continuing over the 10-year budget window, our long-term budget simulations show a resumption of significant deficits emerging after the anticipated demographic tidal wave of population aging hits. These demographic trends serve to emphasize the importance of the first principle cited above—the need to bring a long-term perspective to bear on budget debates. Keeping in mind these principles and concerns, a number of alternatives appear promising.

ALTERNATIVES FOR IMPROVING THE BUDGET PROCESS

There is a broad consensus among observers and analysts who focus on the budget both that BEA has constrained spending and that continuation of some restraint is necessary even with the advent of actual and projected surpluses. Discussions on the future of the budget process have primarily focused on revamping the current budget process rather than establishing a new one from scratch.

Where discussion has moved beyond a general call for continued restraint to specific control devices, the ones most frequently discussed are:

(1) Extending the discretionary spending caps, (2) extending the PAYGO mechanism, and (3) creating a trigger device or a set of rules specifically designed to deal with the uncertainty of budget projections. A new budget process framework could encompass any or all of these instruments.

EXTENDING CAPS ON DISCRETIONARY SPENDING

BEA distinguished between spending controlled by the appropriations process—"discretionary spending"—and that which flowed directly from authorizing legisla-

tion provisions of law—"direct spending," sometimes called "mandatory." Caps were placed on discretionary spending—and the Congress' compliance with the caps was relatively easy to measure because discretionary spending totals flow directly from legislative actions (i.e., appropriations laws). There is broad consensus that, although the caps have been adjusted, they have served to constrain appropriations. This consensus combined with the belief that some restraints should be continued has led many to propose that some form of cap structure be continued as a way of limiting discretionary appropriations. However, the actions in the last 2 years have also led many to note that caps can only work if they are realistic; while caps may be seen as tighter than some would like, they are not likely to bind if they are seen as totally unreasonable given current conditions.

Further, some have proposed that any extension of BEA-type caps be limited to caps on budget authority. Outlays are controlled by and flow from budget authority—although at different rates depending on the nature of the programs. Some argue that the existence of both budget authority and outlay caps has encouraged provisions such as "delayed obligations" to be adopted not for programmatic reasons but as a way of juggling the two caps. The existence of two caps may also skew authority from rapid spendout to slower spendout programs, thus pushing more outlays to the future and creating problems in complying with outlay caps in later years. Extending only the budget authority cap would eliminate the incentive for such actions and focus decisions on that which the Congress is intended to control—budget authority, which itself controls outlays. This would be consistent with the original design of BEA.

Eliminating the outlay cap would raise several issues—chief among them being how to address the control of transportation programs for which no budget authority cap currently exists, and the use of advance appropriations to skirt budget authority caps. However, agreements about these issues could be reached—this is not a case where implementation difficulties need derail an idea. For example, the fiscal year 2002 budget proposes a revision to the scorekeeping rule on advance appropriations so that generally they would be scored in the year of enactment. If the Budget Committees and CBO agree, this change could eliminate the practice of using advance appropriations to skirt the caps. The obvious advantage to focusing decisions on budget authority rather than outlays is that the Congress would not spend its time trying to control that which by design is the result of its budget authority decisions—the timing of outlays.

There are other issues in the design of any new caps. For example, for how long should caps be established? What categories should be established within or in lieu of an overall cap? While the original BEA envisioned three categories (Defense, International Affairs, and Domestic), over time categories were combined and new categories were created. At one time or another caps for Nondefense, Violent Crime Reduction, Highways, Mass Transit, and Conservation spending existed—many with different expiration dates. Should these caps be ceilings, or should they—as is the case for Highways and Conservation—provide for "guaranteed" levels of funding? The selection of categories—and the design of the applicable caps—is not trivial. Categories define the range of what is permissible. By design they limit trade-offs and so constrain both the Congress and the President.

Because caps are phrased in specific dollar amounts, it is important to address the question of when and for what reasons the caps should be adjusted. This is critical for making the caps realistic. For example, without some provision for emergencies, no caps can be successful. At the same time, there appears to be some connection between how realistic the caps are and how flexible the definition of emergency is. As discussed in last year's compliance report, the amount and range of spending considered "emergency" has grown in recent years. There have been a number of approaches suggested to balance the need to respond to emergencies and the desire to avoid making the "emergency" label an easy way to raise caps. In the budget resolution for fiscal year 2001 [H. Con. Res. 290], the Congress said it would limit emergencies to items meeting five criteria: (1) necessary, essential, or vital (not merely useful or beneficial), (2) sudden, quickly coming into being, and not building up over time, (3) an urgent, pressing, and compelling need requiring immediate action, (4) unforeseen, unpredictable, and unanticipated, and (5) not permanent, temporary in nature. The resolution further required any proposal for emergency spending that did not meet all the criteria to be accompanied by a statement of justification explaining why the requirement should be accorded emergency status. The fact that this provision was ignored during debates on fiscal year 2001 appropriations bills emphasizes that no procedural hurdle can succeed without the will of the Congress. Others have proposed providing for more emergency spending—either in the form of a reserve or in a greater appropriation for the Federal Emergency Management Agency (FEMA)—under any caps. If such an approach were to be taken, the

amounts for either the reserve or the FEMA disaster relief account would need to be included when determining the level of the caps. Some have proposed using a 5- or 10-year rolling average of disaster/emergency spending as the appropriate reserve amount. Adjustments to the caps would be limited to spending over and above that reserve or appropriated level for extraordinary circumstances. Alternatively, with additional up-front appropriations or a reserve, emergency spending adjustments could be disallowed.[4]

Even with this kind of provision only the commitment of the Congress and the President can make any limit on cap adjustments for emergencies work. States have used this reserve concept for emergencies, and their experiences indicate that criteria for using emergency reserve funds may be useful in controlling emergency spending.[5] Agreements over the use of the reserve would also need to be achieved at the Federal level.

This discussion is not exhaustive. Other issues would come up in extending BEA. Previously, we have reported on two issues—the scoring of operating leases and the expansion of user fees as offsets to discretionary spending; because I think they need to be considered, let me touch on them briefly.

MISCELLANEOUS DISCRETIONARY CHALLENGES: LEASES AND USER FEES

We have previously reported that existing scoring rules favor leasing when compared to the cost of various other methods of acquiring assets.[6] Currently, for asset purchases, budget authority for the entire acquisition cost must be recorded in the budget up front, in the year that the asset acquisition is approved. In contrast, the scorekeeping rules for operating leases often require that only the current year's lease costs be recognized and recorded in the budget. This makes the operating lease appear less costly from an annual budgetary perspective, and uses up less budget authority under the cap. Alternative scorekeeping rules could recognize that many operating leases are used for long-term needs and should be treated on the same basis as purchases. This would entail scoring up front the present value of lease payments covering the same period used to analyze ownership options. The caps could be adjusted appropriately to accommodate this change.

Many believe that one unfortunate side effect of the structure of the BEA has been an incentive to create revenues that can be categorized as "user fees" and so offset discretionary spending—rather than be counted on the PAYGO scorecard. The 1967 President's Commission on Budget Concepts recommended that receipts from activities that were essentially governmental in nature, including regulation and general taxation, be reported as receipts, and that receipts from business-type activities "offset to the expenditures to which they relate." However, these distinctions have been blurred in practice. Ambiguous classifications combined with budget rules that make certain designs most advantageous has led to a situation in which there is pressure to treat fees from the public as offsets to appropriations under BEA caps, regardless of whether the underlying Federal activity is business or governmental in nature. Consideration should be given to whether it is possible to come up with and apply consistent standards—especially if the discretionary caps are to be redesigned. The administration has stated that it plans to monitor and review the classification of user fees and other types of collections.

EXTENDING AND REFINING PAYGO

The PAYGO requirement prevented legislation that lowered revenue, created new mandatory programs, or otherwise prevented direct spending from increasing the deficit unless offset by other legislative actions. As long as the unified budget was in deficit, the provisions of PAYGO—and its application—were clear. The shift to surplus raised questions about whether the prohibition on increasing the deficit also applied to reducing the surplus. Although the Congress and the executive branch have both concluded that PAYGO does apply in such a situation, any extension should eliminate potential ambiguity in the future.

This year, the administration has proposed—albeit implicitly—special treatment for a tax cut. The budget states that the President's tax plan and Medicare reforms are fully financed by the surplus and that any other spending or tax legislation would need to be offset by reductions in spending or increases in receipts. It is possible that in a time of budget surplus, the Congress might wish to modify PAYGO to permit increased direct spending or lower revenues as long as debt held by the public is planned to be reduced by some set percentage or dollar amount. Such a provision might prevent PAYGO from becoming as unrealistic as overly tight caps on discretionary spending. However, the design of such a provision would be important—how would a debt reduction requirement be specified? How would it be measured? What should be the relationship between the amount of debt reduction re-

quired and the amount of surplus reduction (i.e., tax cut or direct spending increase) permitted? What, if any, relationship should there be between this calculation and the discretionary caps?

While PAYGO constrained the creation or legislative expansion of direct spending programs and tax cuts, it accepted the existing provisions of law as given. It was not designed to trigger—and it did not trigger—any examination of "the base." Cost increases in existing mandatory programs are exempt from control under PAYGO and could be ignored. However, constraining changes that increase the cost of entitlements and mandatories is not enough. Our long-term budget simulations show that as more and more of the baby boom generation retires, spending for Social Security, Medicare, and Medicaid will demand correspondingly larger shares of Federal revenues. The growth in these programs will increasingly restrict budgetary flexibility. Even if the Social Security surpluses are saved and used for debt reduction, unified deficits are projected to emerge in about two decades, and by 2030 Social Security, Medicare, and Medicaid would require more than three-fourths of Federal revenues.[7]

Previously we suggested some sort of "lookback" procedure to prompt a reexamination of "the base." Under such a process, the Congress could specify spending targets for PAYGO programs for several years. The President could be required to report in his budget whether these targets either had been exceeded in the prior year or were likely to be exceeded in the current or budget years. He could then be required to recommend whether any or all of this overage should be recouped—and if so, to propose a way to do so. The Congress could be required to act on the President's proposal.

While the current budget process contains a similar point of order against worsening the financial condition of the Social Security trust funds,[8] it would be possible to link "tripwires" or triggers to measures related to overall budgetary flexibility or to specific program measures. For example, if the Congress were concerned about declining budgetary flexibility, it could design a tripwire tied to the share of the budget devoted to mandatory spending or to the share devoted to a major program.

Other variations of this type of tripwire approach have been suggested. The 1999 Breaux-Frist proposal (S. 1895) for structural and substantive changes to Medicare financing contained a new concept for measuring "programmatic insolvency" and required congressional approval of additional financing if that point was reached. Other specified actions could be coupled with reaching a tripwire, such as requiring the Congress or the President to propose alternatives to address reforms or, by using the congressional budget process, requiring the Congress to deal with unanticipated cost growth beyond a specified tripwire by establishing a point of order against a budget resolution with a spending path exceeding the specified amount. One example of a threshold might be the percentage of GDP devoted to Medicare. The President would be brought into the process as it progressed because changes to deal with the cost growth would require enactment of a law.

IMPROVING THE RECOGNITION OF LONG-TERM COMMITMENTS

In previous reports we have argued that the Nation's economic future depends in large part upon today's budget and investment decisions.[9] In fact, in recent years there has been increased recognition of the long-term costs of Social Security and Medicare.[10]

While these are the largest and most important long-term commitments—and the ones that drive the long-term outlook—they are not the only ones in the budget. Even those programs too small to drive the long-term outlook affect future budgetary flexibility. For the Congress, the President, and the public to make informed decisions about these other programs, it is important to understand their long-term cost implications.

While the budget was not designed to and does not provide complete information on long-term cost implications stemming from some of the government's commitments when they are made, progress can be made on this front. The enactment of the Federal Credit Reform Act in 1990 represented a step toward improving both the recognition of long-term costs and the ability to compare different policy tools. With this law, the Congress and the executive branch changed budgeting for loan and loan guarantee programs. Prior to the Credit Reform Act, loan guarantees looked "free" in the budget. Direct loans looked like grant programs because the budget ignored loan repayments. The shift to accrual budgeting for subsidy costs permitted comparison of the costs of credit programs both to each other and to spending programs in the budget.

Information should be more easily available to the Congress and the President about the long-term cost implications both of existing programs and new proposals.

In 1997 we reported that the current cash-based budget generally provides incomplete information on the costs of Federal insurance programs.[11] The ultimate costs to the Federal Government may not be apparent up front because of time lags between the extension of the insurance, the receipt of premiums, and the payment of claims. While there are significant estimation and implementation challenges, accrual-based budgeting has the potential to improve budgetary information and incentives for these programs by providing more accurate and timely recognition of the government's costs and improving the information and incentives for managing insurance costs. This concept was proposed in the Comprehensive Budget Process and Reform Act of 1999 (H.R. 853), which would have shifted budgetary treatment of Federal insurance programs from a cash basis to an accrual basis.

There are other commitments for which the cash and obligation based budget does not adequately represent the extent of the Federal Government's commitment. These include employee pension programs, retiree health programs, and environmental cleanup costs. While there are various analytical and implementation challenges to including these costs in budget totals, more could be done to provide information on the long-term cost implications of these programs to the Congress, the President, and the interested public. At the request of this committee, we are continuing to address this issue.

DEALING WITH THE UNCERTAINTY OF PROJECTIONS

As the budgeting horizon expands, so does the certainty of error. Few forecasters would suggest that 10-year projections are anything but that—projections of what the world would look like if it continued on a line from today. And long-term simulations are useful to provide insight as to direction and order of magnitude of certain trends—not as forecasts. Nevertheless, budgeting requires forecasts and projections. Baseline projections are necessary for measuring and comparing proposed changes. Former Congressional Budget Office (CBO) Director, Rudy Penner, suggested that 5-year and 10-year projections are useful for and should be used for different purposes: 5-year projections for indicating the overall fiscal health of the Nation, and 10-year projections for scorekeeping and preventing gaming of the timing of costs.

No 10-year projection is likely to be entirely correct; the question confronting fiscal policymakers is how to deal with the risk that a projection is materially wrong. This year some commentators and Members of the Congress have suggested dealing with this risk by using triggers. Triggers were part of both Gramm-Rudman-Hollings (GRH) and BEA. The GRH triggers were tied to deficit results and generally regarded as a failure—they were evaded or, when deficits continued to exceed the targets, the targets were changed. BEA triggers have been tied to congressional action rather than to deficit results; sequesters have rarely been triggered—and those were very small. This year the discussion of triggers has been tied specifically to the tax debate and to whether the size of the tax cut in future years should be linked to budget results in those years. There could be several variations on this trigger: actual surplus results, actual revenue results (this with the intent of avoiding a situation in which spending increases can derail a tax cut), and actual debt results. There is little consensus on the effectiveness of any triggers.

Although the debate about triggers has been tied to the tax debate in 2001, there is no inherent reason to limit the discussion to taxes. Some might wish to consider triggers that would cause decision makers to make proposals to address fiscal results that exceed some specific target, such as debt or spending as a share of GDP.

Former CBO Director Robert Reischauer suggested another way of dealing with the fact that forecasts/projections become less certain the further they go into the future. Under his proposal, a declining percentage of any projected surplus would be available—either for tax cuts or for spending increases. Specifically, 80 percent of the surplus would be available to legislators in years 1 and 2, 70 percent in years 3 and 4, 60 percent in years 5 and 6, until reaching the 40-percent level in years 9 and 10. The consequence of not adhering to these limits would be an across-the-board sequester. When a new Congress convenes, it would be given a new budget allowance to spend based on a new set of surplus projections.

OTHER IDEAS PROPOSED TO SMOOTH THE PROCESS

Others have suggested that mechanisms such as a joint budget resolution and/or an automatic continuing resolution could avert the year-end disruption caused by an inability to reach agreement on funding the government. Biennial budgeting is also sometimes suggested as a better way to budget and to provide agencies more certainty in funding over 2 years. Let me turn now to these ideas.

Since agreement on overall budget targets can set the context for a productive budget debate, some have suggested that requiring the President's signature on

budget resolutions would facilitate the debate within such a framework. Proposals to replace the Concurrent Resolution with a Joint Resolution should be considered in the light of what the budget resolution represents. Prior to the 1974 act only the President had a budget—that is, a comprehensive statement of the level of revenues and spending and the allocation of that spending across "national needs" or Federal mission areas. Requiring the President to sign the budget resolution means it would not be a statement of congressional priorities. Would such a change reduce the Congress' ability to develop its own budget and so represent a shift of power from the Congress to the President? Whose hand would it strengthen? If it is really to reduce later disagreement, would it merely take much longer to get a budget resolution than it does today? It could be argued that under BEA the President and the Congress have—at times—reached politically binding agreements without a joint budget resolution.

The periodic experience of government "shutdowns"—or partial shutdowns when appropriations bills have not been enacted has led to proposals for an automatic continuing resolution. The automatic continuing resolution, however, is an idea for which the details are critically important. Depending on the detailed structure of such a continuing resolution, the incentive for policymakers—some in the Congress and the President—to negotiate seriously and reach agreement may be lessened. What about someone for whom the "default position" specified in the automatic continuing resolution is preferable than the apparent likely outcome? If the goal of the automatic continuing resolution is to provide a little more time for resolving issues, it could be designed to permit the incurrence of obligations to avoid a funding gap, but not the outlay of funds to liquidate the new obligations. This would allow agencies to continue operations for a period while the Congress completes appropriations actions.

Finally, you asked me to discuss proposals for biennial budgeting. Some have suggested that changing the appropriations cycle from annual to biennial could (1) provide more focused time for congressional oversight of programs, (2) shift the allocation of agency officials' time from the preparation of budgets to improved financial management and analysis of program effectiveness, and (3) enhance agencies' abilities to manage their operations by providing more certainty in funding over 2 years. Given the regularity with which proposals for biennial budgeting are made, I believe that at least some will consider the upcoming necessity to decide whether to extend BEA as an opportunity to again propose biennial budgeting.

Whether a biennial cycle offers the benefits sought will depend heavily on the ability of the Congress and the President to reach agreement on how to respond to uncertainties inherent in a longer forecasting period, for there will always be uncertainties. How often will the Congress and the President feel the need to reopen the budget and/or change funding levels?

Budgeting always involves forecasting, which in itself is uncertain, and the longer the period of the forecast, the greater the uncertainty. Our work has shown that increased difficulty in forecasting was one of the primary reasons states gave for shifting from biennial to annual cycles.[12] The budget is highly sensitive to the economy. Economic changes during a biennium would most likely prompt the Congress to revisit its decisions and reopen budget agreements. Among the issues that would need to be worked out if the Congress moves to a biennial budget cycle are how to update the CBO forecast and baseline against which legislative action is scored and how to deal with unexpected events. The baseline is important because CBO scores legislation based on the economic assumptions in effect at the time of the budget resolution. Even under an annual system there are years when this practice presents problems: in 1990 the economic slowdown was evident during the year, but consistent practice meant that bills reported in compliance with reconciliation instructions were scored based on the assumptions in the budget resolution rather than updated assumptions. If budget resolutions were biennial, this problem of outdated assumptions would be greater—some sort of update in the "off-year" likely would be necessary.

In any consideration of a biennial budget, it is important to recognize that even with annual budgets, the Congress already has provided agencies with multiyear funding to permit improved planning and management. As you know, it is not necessary to change the frequency of decisions in order to change the length of time funds are available. Nearly two-thirds of the budget is for mandatory programs and entitlements on which decisions are not made annually. Even the remaining portion that is on an annual appropriations cycle is not composed entirely of 1-year appropriations that expire on September 30 of each year. The Congress routinely provides multiyear or no-year appropriations when it seems to make sense to do so. Thus, to the extent that biennial budgeting is proposed as a way to ease a budget execu-

tion problem, the Congress has shown itself willing and able to meet that need under the current annual cycle.

If BEA is extended in conjunction with biennial budgeting, a whole host of technical issues needs to be considered. Would biennial budgeting change the timing of the BEA-required sequestration report? How would sequestrations be applied to the 2 years in the biennium and when would they occur? For example, if annual caps are continued and are exceeded in the second year of the biennium, when would the Presidential Order causing the sequestration be issued? Would the sequestration affect both years of the biennium? Would forecasts and baselines be updated during the biennium? These are just of few of the many questions that would need to be resolved.

Regardless of the potential benefits, the decision on biennial budgeting will depend on how the Congress chooses to exercise its constitutional authority over appropriations and its oversight functions. We have long advocated regular and rigorous congressional oversight of Federal programs. Annual enacted appropriations have long been a basic means of exerting and enforcing congressional policy. Oversight has often been conducted in the context of agency requests for funds. A 2-year appropriation cycle would change—and could lessen—congressional influence over program and spending matters since the process would afford fewer scheduled opportunities to affect agency programs and budget.

Biennial budgeting would bring neither the end of congressional control nor the guarantee of improved oversight. It would require a change in the nature of that control. If the Congress decides to proceed with a change to a biennial budget cycle—including a biennial appropriations cycle—careful thought will need to be given to implementation issues.

CONCLUSION

To affect decisionmaking, the fiscal goals sought through a budget process must be accepted as legitimate. For many years the goal of "zero deficit"—or the norm of budget balance—was accepted as the right goal for the budget process. In the absence of the zero deficit goal, policymakers need an overall framework upon which a process and any targets can be based. Goals may be framed in terms of debt reduction or surpluses to be saved. In any case, compliance with budget process rules, in both form and spirit, is more likely if end goals, interim targets, and enforcement boundaries are both accepted and realistic.

Enforcement is more successful when it is tied to actions controlled by the Congress and the President. Both the BEA spending caps and the PAYGO enforcement rules were designed to hold the Congress and the President accountable for the costs of the laws enacted each session—not for costs that could be attributed to economic changes or other factors.

Today, the Congress and the President face a different budgetary situation than in the past few decades. The current budget challenge is not to achieve a balanced unified budget. Rather, budgeting today is done in the context of projections for continued and growing surpluses followed over the longer term by demography-driven deficits. What process will enable policymakers to deal with the near term without ignoring the long term? At the same time, the challenges for any budget process are the same: What process will enable policymakers to make informed decisions about both fiscal policy and the allocation of resources within the budget?

Extending the current BEA without setting realistic caps and addressing existing mandatory programs is unlikely to be successful for the long term. The original BEA employed limited actions in aiming for a balanced budget. It left untouched those programs—direct spending and tax legislation—already in existence. Going forward with new challenges, we believe that a new process that prompts the Congress to exercise more foresight in dealing with long-term issues is needed. The budget process appropriate for the early 21st century will have to exist as part of a broader framework for thinking about near- and long-term fiscal goals.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions that you or the Members of the Committee may have.

ENDNOTES

1. Although the overall discretionary spending caps expire in 2002, the Highway and Mass Transit outlay caps established under Transportation Equity Act for the 21st Century (TEA-21) continue through 2003, and the conservation caps established as part of the fiscal year 2001 Interior Appropriations Act were set through 2006. In addition, the sequestration procedure applies through 2006 to eliminate any projected net costs stemming from PAYGO legislation enacted through fiscal year 2002.

2.Budget Issues: Budget Enforcement Compliance Report (GAO-01-777, June 15, 2001).

3. For a fuller discussion of these criteria, see Budget Process: Evolution and Challenges (GAO/T-AIMD-96-129, July 11, 1996), Budget Process: History and Future Directions (GAO/T-AIMD-95-214, July 13, 1995), and Budget Process: Comments on H.R. 853 (GAO/T-AIMD-99-188, May 12, 1999).

4. The administration's fiscal year 2002 budget submission included a proposal to set aside a reserve for emergency needs in the annual budget and appropriations process, arguing that this would limit the need for emergency supplementals to extremely rare events.

5. Budgeting for Emergencies: State Practices and Federal Implications (GAO/AIMD-99-250, Sept. 30, 1999).

6. Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

7. Long-Term Budget Issues: Moving From Balancing the Budget to Balancing Fiscal Risk (GAO-01-385T, Feb. 6, 2001).

8. 2 U.S.C. 632 (i), and Medicare Reform: Issues Associated With General Revenue Financing (GAO/T-AIMD-00-126, Mar. 27, 2000).

9. See Budget Process: Evolution and Challenges (GAO/T-AIMD-96-129, July 11, 1996) and The Deficit and the Economy: An Update of Long-Term Simulations (GAO/AIMD/OCE-95-119, Apr. 26, 1995), among others.

10. Budget of the United States Government, Fiscal Year 2002, OMB, Apr. 9, 2001; The Budget and Economic Outlook: Fiscal Years 2002-2011, CBO, Jan. 2001; GAO-01-385T, Feb. 6, 2001; and Medicare: Higher Expected Spending and Call for New Benefit Underscore Need for Meaningful Reform (GAO-01-539T, Mar. 22, 2001).

11. Budget Issues: Budgeting for Federal Insurance Programs (GAO/AIMD-97-16, Sept. 30, 1997).

12. Since the mid-1960's, 18 states have changed their budget cycles: 11 from biennial to annual, 2 from annual to mixed, 4 from annual to biennial, and1 from biennial to annual and back to biennial.

Chairman NUSSLE. Thank you very much, all three of you, for your testimony.

Let me ask you, Chairman Cox, a question because it came up this year and I see it in your outline. Actually, looking through your outline, you mention spending. "Before a budget Congress should be prevented from considering spending bills in committee or on the floor without first passing a budget."

I think I understand where you are heading with this. Number one, doesn't that slow down the process? That is number one.

Number two, would you also apply that to the Ways and Means and Finance Committee with regard to consideration of tax legislation?

Mr. COX. Well, you are right to point out that—I think you are pointing out—that at present this is a procedure we observe. In recent years we have not been bringing spending bills to the floor without having a budget.

But as you know from past experience, this is a problem. In some years, notwithstanding the outline of the 1974 Budget Act, Congress has turned to spending first and budget second. That is simply out of order.

The Ways and Means Committee dealt recently with the issue of whether or not they could bring a tax bill to the floor without a budget. As you know, we settled that with some fine attention to detail. But I think the principle is the same. We ought to have a budget in place before we appropriate or before we tax for future years.

Chairman NUSSLE. I am not questioning whether or not the Ways and Means Committee could have considered that. I mean, we did. I am on the committee. I was one of the ones who was on

the hot seat at the time. I am not suggesting that we should not have done it. Technically, we could.

I am just wondering, because you are suggesting, I think, an active provision that would preclude that, whether or not you would also include tax bills.

Mr. COX. My concern is much more, I should say, on controlling the spending process because what we are mixing in a certain sense is apples and oranges when we put together our budget forecast. Congress actually controls appropriations. We decide how much to put on the check.

But Congress doesn't control revenues. There are a lot of external effects and variables that we don't control. So, we are just trying to estimate that figure. It is very, very important for us to tightly control our spending process.

Chairman NUSSLE. We are considering marking up a budget enforcement act legislation here in the committee. Just to get your advice on the caps and PAYGO, would you extend both of them, or either one of them? And if so, for how long would be your advice and are there any other reforms that you think are so definitely and drastically needed that they should be included immediately in the bill that we produce out of this committee in the near future?

As you know, we are running up against a caps issue this year and there will also be a PAYGO issue. So, we have to do something. If we don't do it, someone else will do it for us.

Mr. COX. Well, our budget caps are a little bit like our immigration policy. There are millions of illegal, undocumented people living in America. We have immigration laws that say that that can't happen.

Likewise, we have budget caps that we do because there has to be law and order in this Congress when it comes to spending, but we have all sorts of spending that is not anywhere within the caps.

I think it is time that we recognize the wasted motion involved and come up with a budget, whether you call the budget figures caps or not, come up with a budget that we mean and then come up with a way to live within it. We don't do that yet.

Anything short of that, I think, short changes the whole process in the whole country.

With respect to PAYGO specifically, it is weaker than it should be. PAYGO shouldn't apply only to part of the budget, the entitlement part. It should apply to the whole budget. That would strengthen PAYGO. It would also rationalize our choices because right now, for example, if one wants to consider a change in tax rates, you have to offset it only through the entitlement part of the budget.

Why is that? There isn't any good policy for that. As a matter of fact, most people would stipulate that we would be less inclined to want to cut Social Security or Medicare for example. Yet, does that mean that we can never change tax policy? It ought not to. The PAYGO discipline ought to operate against the entire budget. I would extend it on that basis.

Chairman NUSSLE. Mr. Price.

I have questions for Barry and Susan as well, but I want to stay within my time.

Mr. PRICE. Thank you, Mr. Chairman. Let me also focus on Mr. Cox and reserve some of the other questions until the second round.

Mr. Cox, we appreciate your being here and we appreciate your patience this morning.

Let me just pick up on a couple of points that the Chairman has already raised. I, too, have been looking at your specific recommendations for a better process.

As you said, the simple, straightforward notion that Congress should be prevented from considering spending bill without first passing a budget, that, of course, is the concept at the heart of the budget process as it now stands, although it is often honored in the breach.

If that is to hold though, if we are to return to that as our standard, there are a couple or requirements, aren't there? First of all, the budget resolution should not be simply a political document or a campaign bumper sticker. It should be a realistic estimate based on sound estimates of revenue and the likely demands on the appropriations process. It should be a realistic number that accommodates our needs and isn't just out there as a political symbol that then won't allow the necessary appropriations bills to be passed in a timely fashion.

Secondly, it seems to me it is going to require some degree of agreement with the Executive. Of course, that is what you are getting at in your fifth point, that there been a budget in the form of a law with the President's approval.

I wonder, though, if maybe those conditions don't at least threaten to contradict one another, especially under the conditions of a divided government. This was discussed by the first panel.

If you are working out the problems, the conflicts between the Executive and the Congress at the stage of this budget resolution, does not that threaten to not only move all that conflict forward in the process, but actually delay the passage of a budget resolution, make it even more difficult to keep our spending bills and our tax bills within the constraints of the budget resolution?

Might we not delay and confuse that process even further?

Mr. COX. Well, I did appreciate the discussion on the first panel. This was the point that was touched upon by Bob Reischauer. If you move the whole kit and caboodle to step one, then it will collapse of its own weight.

So, what you have to do if you are trying to have a budget in the form of a law that puts the Executive and the Congress on the same page to begin with is to simply the task. Don't ask them to do everything in step one. Ask them to do something in step one.

I believe if you go back and read the testimony and the responses that Bob Reischauer gave this morning, he said, almost exactly this. He said, "It is very easy to agree at a high level of abstraction on how much money to spend on defense and so on. But the difficult choices come when you figure out how much you need for 'X' and how much you need for 'Y' and so on."

The budget resolution that is agreed upon between the Executive and the legislative in the form of a law should be a highly abstract document. It should be in the aggregate because that facilitates agreement, even between warring political parties.

It is much easier to recognize what are appropriate totals by function, than it is to decide whose program is better and so on. I would ask only that of the process at that point. Insofar as getting realistic numbers for those aggregates is concerned, that is the best justification that I can think of for having this committee being a year-round committee and for having the Appropriations Committee be a year-round committee.

Of course, CBO and OMB are year-round, as are the staffs of the other Cabinet departments and legislative committees of the House and the Senate. So, we have the capacity, providing we are paying attention to a newly designed process, to come up with a new idea of the aggregates early on and then get to the more difficult choices within that budget.

But something that Bob said troubled me a great deal. He almost implied that before we come up with the aggregate number, we should figure out everything we want and total it. To me, that is like you and I moving into an apartment on limited student budgets and deciding we need new drapes, refrigerator, TV set and we go through our whole wish list and then we total it up.

We would never do that in real life. We would say, "Well, you and I have $500. So how shall we spend it?"

That is what the government has to do.

Mr. PRICE. Yes, I thought that was an interesting comment. I thought his point also was, though, that if you do bring the President into the process in a definitive way at that early point, then you are escalating those discussions and you are, almost by definition, importing into the budget resolution discussions a great many matters that could be finessed or could be left in less resolved form if the budget resolution did not have that status.

Mr. COX. That is true. The world is divided into people who are over-prepared and the people who are procrastinators and some variation in between. I think our process has been skewed toward procrastination for far too long and everybody here on both sides of the aisle with the management of both Republicans and Democrats in Congress has seen too many October firsts and sometimes January firsts with unresolved issues.

The Civil Service, if anyone else, would be thrilled if we were a little bit more organized and did our work up front.

Mr. PRICE. Let me just quickly make one final comment. I was interested in your response to the chairman on the question of whether the tax bills ought also to be prevented from being considered until the budget resolution is in place.

It is true, of course, there is an estimating procedure that applies to the revenue bills, whereas the appropriations bill, as you say, are a matter of simply writing a check.

But entitlement expenditures, of course, are also estimates. Those bills are going to be paid, whatever they end up being. Wouldn't you agree that given the equivalent comparable impacts on the budget, that all three categories ought to in some sense be subservient to the budget process and fit within the budget process: discretionary spending, entitlement spending and revenues?

Mr. COX. Yes, I agree with that. That is what I meant to say to Chairman Nussle. I only added that there are differences and that if I had to prioritize the importance of aiming this discipline at

some part of it, I would aim it at that over which we all understand we have plenary control. We ought to have control, by the way, over a bigger slice.

I have been staring at these charts all morning. I am sure it is high on your mind that these are Bob Livingston's charts. That slice that is labeled "mandatory," whoever gets to apply the labels in political debate tends to win.

Once it is mandatory, we have absolved ourselves of responsibility because we have to do it. But, of course, that is not true. It is not just Social Security or Medicare that are so-called entitlement programs that are permanent, indefinite appropriations.

There are a lot of things on the list of permanent and indefinite appropriations. We ought to take a look at those and pare them back, put as much as possible the budget under Congress' routine control and under this committee's control, which I am sure you wouldn't object to.

Mr. PRICE. I don't have any more questions for you, Chairman Cox.

Mr. COX. I very much appreciate it. I will now go and do the things that I have to do instead of this, which I would like to do.

Chairman NUSSLE. For our other two witnesses, Barry, I am very interested in your budget concepts commission and the structure. One of the questions I would have for you is, is this a macro or micro concepts examination? How big conceptually can we discuss it? Is this so in the weeds that we want to send you off for a few years or whatever it is and let you guys talk about it without any influence from the politicos?

In other words, can you help us with a commission like this on some of these bigger picture items such as joint resolution biennial budgeting or are you in the weeds when it comes to how tax credit affect it and all those kinds of things?

Mr. ANDERSON. Well, I believe that a budget concepts commission should look at broader things than just a joint resolution or just biennial budgeting. In fact, I think that a joint resolution, biennial budgeting, emergency definitions, and a lot of the items discussed this morning are more things that can be handled right now by the Congress, by the Budget Committees getting together with the executive branch, perhaps, than the larger things that I tried to address.

So, I think a commission should look at more fundamental things. One is this fundamental concept of how we treat equity purchases by the Social Security system if they ever do come about.

There was a proposal by President Clinton to treat the equity purchases for the first 10 years as they are treated now, as outlays. But then beyond that, do not treat them in that way. Well, that is a fundamental decision that I don't think ought to be unilaterally made by either OMB or CBO. I think it involves a commission that would be very broad, very macro.

The impacts on the economy of that kind of decision are as broad as can possibly be. So, at the same time that you might be looking into biennial budgeting or the emergency definition or things like that, a budget concepts commission, for example, or perhaps another group made up of Budget Committee, OMB, CBO, and GAO folks could sit down and try and address these larger global issues.

One is narrow and one is global, I guess, is how I would look at it.

Chairman NUSSLE. There are many complaints that Members have, Mr. Cox certainly is one of them. We have members on the committee who have been very frustrated about scorekeeping, dynamic versus all sorts of things. Is that another kind of area that could be considered under this commission format?

Mr. ANDERSON. Yes. Congressman Cox has mentioned scorekeeping a number of times. He has mentioned the baseline. We have recently had information or have been asked for information on how to redefine the baseline.

From CBO's perspective, first of all, the first thing we want is as much guidance as we can get from you. We don't like to make up the rules ourselves. We prefer to be told what the rules are and then implement them.

For example, lately some have been saying, the baseline ought to be revised to disregard the expirations of the recently passed tax law. Well, that is not a decision we are going to make. We are going to clearly do the baseline in August and next January taking into account the current rules that say, "If a law expires, we allow it to expire."

Yet another trend that Congressman Cox mentioned is talk about discretionary spending. There have been some people who have been saying that the baseline for discretionary spending ought not to be just the enacted level, or the enacted level plus inflation, but the enacted level plus inflation and population growth.

Well, again, we will do it however you tell us to. However, if we do it that last way, enacted plus inflation plus population, then we have really eliminated the distinction between mandatory and discretionary spending. Maybe that is appropriate. Maybe that is the goal. But that is what the result would be.

So, certainly looking at dynamic scoring, looking at the baseline, looking at several of the other things that Congressman Cox mentioned are the more fundamental, broader issues that are appropriate for a commission.

Chairman NUSSLE. Well, this is not to suggest or imply that anybody's intentions are wrong. But the frustration I have always had about the way the issues come up is when somebody is bit by a CBO score, then all of a sudden they get on the bandwagon because they didn't like the score. That is what precipitates the reform, because they didn't like the outcome.

It is not done in a vacuum where it is done objectively and where it is discussed soberly about how this actually should be done. It is when they get bit and they do something.

That is what concerns me about all of these reforms, that they shouldn't be done in order to determine an outcome that somebody pre-determines is what they want. It ought to be done fairly so that we can start predicting this stuff.

I know you are as frustrated about this stuff as I am. But even what is going to happen here in August you know, I am new to this position of having to be in the hot seat, but it is amazing to me that from May to August, you know, the numbers can be that different. How is it possible? How can you make decisions based on that?

I don't think anybody would fault a decision that you make in February or that you make in May, but my gosh, it looks like a crazy way to do business if your projections can't even last that long.

I am not faulting. I am just saying that if based on that we come rushing in and saying, "Well, my gosh, your projections are wrong," therefore Congress politically decides because we didn't like the outcome to make some grandiose reform telling you how to change your rules. I don't think that makes sense either.

That is why I like your budget concepts idea. I would be interested in anything further you have on that at the appropriate time because I think it is something worth considering.

When was the last one?

Mr. ANDERSON. In 1967.

Chairman NUSSLE. Well, maybe things have changed since then. In 1967 I was 7 years old. Things have certainly changed for me. I know that.

Susan, the question I had for you had to do with long-term obligations. I totally agree with you on the whole issue. We have a number of obligations out there. Whether it is the way we do our accounting, how it is portrayed in the budget, you mentioned a couple of them.

You mentioned a couple of them. I would be very interested in whether it goes hand in hand with Barry's concepts. Maybe that is the place for this discussion to occur. Are there ways that in the short term we can add a reform to the way we do budgets to more fairly and more accurately which is the issue here, I think they depict the obligation and how the impact will affect the obligations of the Federal Government.

That is my question. I am not sure how to phrase it. But I am interested in how do you fix it and maybe even where do you fix it?

Ms. IRVING. I guess this sounds like a cop-out answer, but maybe the answer is both. I think you have enough information to do some things now. For loans we have already gone to showing the subsidy cost accrual so that we could put direct loans and loan guarantees on the same playing field.

We already have enough information to begin to provide additional information in the budget about retiree health, about government pensions. I would argue to begin to provide at least supplemental information on Federal insurance programs and maybe even to begin to provide additional information on environmental liabilities.

Now, on some of those you are not at a point where you are ready to leap all the way to where you went on credit reform and say, "OK, I am going to put it in the budget totals."

But, just because you can't go all the way yet, doesn't mean you should be operating in a vacuum where it appears that a reasonable way to offset the costs of GATT was to broaden PBGC coverage and the PBGC premium when in fact that increases the liability.

I think you need to begin to explore ways at a minimum to create a supplemental column in the budget. You don't need to have to begin having points of order and scorekeeping and all of that right

now. Right now you all operate in the dark when you extend an insurance program. I believe OMB is going to propose moving to some improved cost accounting in the budget where you begin to, at least at the agency levels, improve the budgeting for retiree health and for pensions.

On the others, you will have to keep studying it.

Chairman NUSSLE. In part, that is when Mr. Cardin and I wrote our reform bill a couple of years ago on the rule. Part of the reason we had to keep watering it down and watering it down is because everyone found out that if you actually put it in there it actually showed some bad news. Heaven forbid we put bad news into the budget.

Ms. IRVING. But your timing in a way is really fortuitous because you know you are going to have to raise the caps this year. So, when you raise them, you may want to think about what are you going to raise them to cover more of? Are you just going to raise them to recognize you already got to balance, or are you going to say, "No, I want to put more emergency spending under the cap."

Some emergency spending is going to be unforeseen. But you can put more under the cap this year. This is the year you can raise the caps.

Chairman NUSSLE. Mr. Price?

Mr. PRICE. Well, let me just follow up. You stressed in your statement at some length the need to grapple with these long-term commitments and to do what we can to reduce the uncertainty of these projections.

There has been a great deal of discussion around here, as you know, concerning the 10-year timeframe that has been used of late. It is too long for some purposes and too short a timeframe for others.

You mentioned in your testimony in a neutral fashion Mr. Reischauer's proposal that the 10-year timeframe be dealt with in a more cautious fashion than is now our practice, that there been rules which dictate that no more than 80 percent of excess resources predicted would be committed for the first 2 years. For the next 2-year period, 70 percent and then 60 percent and so on until the 9th and 10th years of a budget projection.

Have you done much thinking about the possibility or the desirability of imposing such constraints on the disposition of the surplus, assuming that one of our major jobs here is to rethink this process in an era of, we hope, continuing surpluses as opposed to the economic conditions when the budget process was first formulated?

Ms. IRVING. Well, like a lot of Bob's ideas, I think it is really intriguing and worth studying. It would be hard to find a more thoughtful observer.

I think you would be foolish to get rid of 10-year numbers, but you also don't want to treat them like they are as certain as 5-year numbers. So, there is a lot to be said for designing a system that allows you to recognize the increasing uncertainty as you go out in the projections.

I have not given the amount of thought to Bob's specific proposal that would let me walk through how I think you could actually

make it work or enforce it if you chose to. I don't think either of us would want to hang our hat on the particular percentages.

It is worth erring on the side of caution when you are working with outyears. If it turns out you under-guessed and the economy performs even better than you expected, and you have more surplus—whatever you are defining as the available surplus—you can always come back and use it. It is harder to take it back.

Recognizing uncertainty when you enact laws is a really good idea. In addition, a look-back, where you have targets and you periodically re-evaluate progress, can help. Because the only thing you really do know about 10-year numbers is that they are probably going to be wrong. How wrong is a different question.

Mr. PRICE. Well, thank you.

Mr. Anderson, let me turn to you. The aspect of your testimony that interested me most—I think, partly because it is a complex and rather explosive issue—is the treatment of trust funds.

I just want to make sure that I understand where you are going with that discussion. It is a brief discussion. I don't want to put more weight on it than it will bear. You will notice here the significant difference between Federal trust funds and private sector trust funds.

For example, claims against a private trust fund are limited by the value of the fund's assets. The fact that the beneficiary for a private trust fund usually owns the fund income and often owns it assets, where that is not true with the Federal trust funds.

It does seem to me, though, that the discussion tends to underestimate the constraints that surround these trust funds. You say they are created by law and lawmakers can change those laws or repeal them. That sounds pretty cavalier. I don't think most of us feel that way about the trust funds, nor would we dare act that way with respect to the trust funds.

You talk about pressure on lawmakers to favor the trust funds. What do you mean? Are those salutary pressures or not? I am just not clear what we are to conclude from these distinctions that you are drawing between Federal trust funds and private trust funds, what implications you are drawing in terms of the way that we should handle these in the budget process?

Mr. ANDERSON. Congressman Price, I have been in budgeting for over 20 years. During that time, as has been mentioned earlier today, there has been a lot of complexity and the complexity has grown.

I talk to a lot of people, not only media people and people from academia, but also citizens who call CBO, understandably, for an explanation. There is no subject that we get more confused questions about than trust funds.

Mr. PRICE. Let me just interject that that confusion extends far as wide. How many times have we heard "raiding the trust fund" when that really isn't what we are talking about?

Mr. ANDERSON. Yes. I believe, and that is why I put it in my testimony, that one of the fundamental reasons for this source of confusion is that people understandably think of trust funds in the sense that they know of, that is in a trust fund that they set up for their children or a trust fund that they set up for their retirement or something like that.

I am not trying to criticize the purpose of the Social Security trust funds. For example, I think Social Security was the first trust fund, set up in 1935, and it has been a government success program. It has accomplished many if not most of the things that the government set out to do in 1935 and has continued those goals through the succeeding decades.

But nevertheless, we have this source of confusion about what a government trust fund is and what it is not. For example, as we are sitting here I believe other committees are taking a look at changing the Medicare trust fund, either through the Patient's Bill of Rights legislation or through the legislation to provide new drug benefits. Both of those would impact the Medicare trust fund.

Their impact won't necessarily be only in the direction of adding new benefits. Some of those provisions are cutting back some portion of the benefits in order to finance additional new benefits.

So, it is not a trust fund in the same sense as that fund I have set up for my little grandchild who was just born recently because for that trust fund I control the assets. What my grandchild is going to draw out of that trust fund is going to depend on how well I succeed in making investments and how well that corporation, or whatever it is I invest in, pays off.

In the case of Medicare, it is not a function of the current balances in the HI or SMI or other trust funds. It is really a function of what the Congress and the President decide.

That is not to criticize the fact that the Congress and the President have made obligations to the elderly or to civil servants or to the population in general for Social Security benefits. But the mechanism or the words we use to describe those obligations I fear mislead more than they educate and that is the reason for what I said in my testimony.

In particular, I think they mislead in the Social Security context because the whole concept of Social Security from the very beginning and still today is an inter-generational transfer. It is not a store of assets for future use, but rather I pay now so that the generations before me can draw money and live better. They paid for the generations before them.

I am hoping my children and grandchildren will be able to pay for me. But this intergenerational transfer is a fundamentally different concept than what the public perceives most of all when it looks at a trust fund. So, that is what I was trying to get across.

I think there is a benefit to addressing this issue in a larger sense in a budget concepts commission. The benefit may well be educational more than anything else.

Mr. PRICE. Mr. Chairman, I think this would be the subject of another week of hearings. I don't want to prolong it. But let me make this comment, and ask for your reaction.

It does seem to me that the corollary of our scolding our colleagues for the overly-loose use of terms like "raiding the trust fund," the corollary of that is that we do take the idea of a trust fund seriously and that we regard those assets as held, for example, by the Social Security trust fund as a solemn obligation of this government—that we don't engage in the kinds of comments that unfortunately I think our Secretary of Treasury has been inclined to make of late, talking about mere IOUs, mere paper sitting there

in that trust fund, as though it didn't constitute that sort of solemn obligation or it wasn't really comparable to other kinds of Treasury securities in terms of their worth and their safety and soundness.

It is, in fact, a trust fund which is holding $1 trillion worth of assets, which we are going to have to make good on when the cash flow in Social Security reverses in 15 years. Is that not true?

Mr. ANDERSON. You used the phrase "solemn obligation" I believe, Mr. Price. I much prefer using phrases like that because the Federal Government has made an obligation to the beneficiaries of Social Security and Medicare.

I would much rather deal with talking about the obligations the Federal Government has made to those beneficiaries than talking about, as former CBO Director Rudy Penner called it, the accounting device of the trust fund.

I am not saying that the trust fund as we set it up with its assets in Treasury securities does not have value. On the contrary, I believe that if properly presented, use of the statistics that we have for the trust fund has real value, real value not only to us here in Washington in terms of making public policy, but also value to the public.

My point is that there is just this fundamental confusion between what a private trust fund is and what a public trust fund is. The confusion, I fear, is growing.

Ken Apfel, who used to work at OMB in the office right next to me and was the Commissioner of the Social Security Administration, sends out a statement once a year to everybody. You take a look at that statement and you get the feeling that it is the kind of trust fund very similar to the trust fund I have set up for my grandkids.

Well, there are some benefits to that statement. I am glad he is sending it out. But there is also a downside. The downside is that sometime in the future, maybe in the near future and maybe in the longer future, the Congress and the President may have to look at those long-term obligations and change them, as they have done in the past.

For example my mother is drawing a Social Security benefit, and she started drawing at the age of 65. I cannot. I will have to wait until the age of 67 to draw full benefits. That is because of changes that the Congress made in 1983, I believe it was.

Well, we need to make sure those fundamental points are gotten across and that the statements that come out from Social Security or the words we use here don't confuse, but educate people.

Mr. PRICE. Well, all I would say is I appreciate the distinctions you are making and I appreciate your testimony. I would hope, though, in drawing these quite legitimate distinctions that we don't send the wrong signals, either in terms of the obligations that we as office holders have to the commitments that we have made via these trust funds, that we not compromise that nor do we compromise the confidence our citizens have that those assets are there to be drawn upon when they are needed.

Thank you, Mr. Chairman.

Chairman NUSSLE. Ms. Irving, do you want the last word? We will give you the last word for the hearing today.

Ms. IRVING. Mr. Chairman, I would like to go back to Barry's first statement about trust funds, about the fact that there are 200 of them in the budget.

In part in response to all of this confusion, we produced a question-and-answer document on earmarked funds, because it is too easy to let the trust fund discussion be dominated by the biggest, most salient, most important trust fund that we have, Social Security.

But beyond Social Security this is an issue. There are funds in the budget that are labeled trust funds and there are other funds in the budget that are labeled special funds. If I showed them to you without the label I would defy you to tell which is which. They walk, talk and quack exactly the same, except that the Congress put the word "trust" in the label for one fund and not for the other.

I think if you are talking about cleaning up the budget and reducing confusion, you may in fact want one set of rules for Social Security and Medicare or for the ones that represent long-term commitments.

But you might want to think about whether you want to get rid of a term that is so misunderstood and so misused. For example, today you have two funds with simalr purposes—EPA's Hazardous Substance Superfund (a trust fund) and Department of Engergy's Nuclear Waste Fund (a special fund).

Well, I don't know why one is a trust fund and one is a special fund. That is some of what we talk about as confusion.

Mr. PRICE. You are also talking about political resistance, anything that appears to weaken the commitment. I understand your point. I think it is well taken.

Ms. IRVING. I will bet the special fund people think they are just as big a deal.

Mr. PRICE. Try to change them and you would soon find out. Try to change them and you will see the defenders come out of the woodwork, perhaps.

Thank you. That is a helpful clarification. Thank you both for very helpful testimony.

Chairman NUSSLE. I will also add my word of thanks. Thank you, Mr. Price, for sticking this out here with me today and working through some of these issues. I appreciate that.

I think you are right, Ms. Irving. I have to say on second glance today I am pretty excited by the hearing and pretty excited about the discussion I heard today. I am going to smile a little bit better when I talk about budget process reform.

Hopefully, between the two of us we can get people more ginned up, more excited about these concepts as we work through them. We will do the best we can at least.

Ms. IRVING. Well, we stand ready to help, of course.

[The report "Recommendations for Reform" by the Committee for a Responsible Federal Budget follows:]

FEDERAL BUDGET PROCESS: RECOMMENDATIONS FOR REFORM
Committee for a Responsible Federal Budget, March 2000

RECOMMENDATIONS [1]

Joint Budget Resolution—Congress and the President should agree on fiscal policy goals, i.e., aggregate revenues, expenditures, surpluses or deficits, debt levels or

debt reduction targets, etc., and incorporate those agreements in a Joint Budget Resolution.

Exependiture Limits—Joint Budget Resolutions should include enforceable nominal dollar limits for both discretionary[2] and direct spending.[3]

Pay-As-You-Go (PAYGO)[4]—Discipline should be maintained. Joint Budget Resolutions should include limits on projected surpluses available to offset new entitlements/revenue changes without PAYGO offsets.

Biennial Budgets, Appropriations and Tax Cycles should free up significant resources for other more productive purposes.

Automatic Continuing Resolution—An automatic continuing resolution at or below the level of the caps contained in the most recently enacted Joint Budget Resolution should provide stop-gap funding in the event Congress and the President fail to reach agreement on some or all regular appropriations bills. Automatic continuing resolutions should be very restrictive. They could create compelling incentives for Congress and the President to agree on regular appropriations bills.

Rainy Day Fund—"Emergencies." Joint Budget Resolutions should include reasonable reserves against emergencies and other unforeseeable contingencies. "Emergencies" should be carefully and narrowly defined. There should be strong rules to govern expenditure of such funds. This could help to limit the number and frequency of very large so-called emergency appropriations.

The Budget should distinguish clearly between spending and revenues. There should be strict limits on any receipts scored as negative outlays. Activities that have all the characteristics of spending programs should not be scored as tax expenditures. There is a difference between spending and taxes and budgetary presentations should make clear distinctions between the two.

Enhanced rescission should be enacted to take the place of line item veto.

Budget concepts commission—It is time for another Budget Concepts Commission. A concepts commission is the best approach to resolve technical issues and to address new issues as they arise. A new concepts commission should meet at regularly scheduled intervals of not less than 10 years.

EXECUTIVE SUMMARY

The budget should provide an accurate reflection of policies proposed and adopted. Comprehensive and honest budgets promote accountability. Sound budget process promotes fiscal discipline. When politicians cannot agree on policy they tend to fall back on process. But no process can compel decision-makers to reach consensus. Policymakers may be tempted to resort to "blue smoke and mirrors" rather than admit that they cannot reach agreement on hard choices. Perversely, therefore, policy stalemates and effective budget process can combine to make it difficult to keep the budget comprehensive and honest.

The Congressional Budget process evolved in an era of persistent record high peacetime deficits and debt. For all the criticism here and elsewhere, the process helped to frame decisions that produced current surpluses. The Budget Enforcement Act (BEA) in particular was a significant first step toward cooperation between Congress and the Executive branch to achieve specific goals. In many respects, the recommendations contained in this report build on the successes of the BEA.

The Congressional budget process has succumbed to an all too human tendency. When we write rules, people tend to bend and break them. When we build fences and fail to tend them, people will find ways to breach those barriers. So much has happened, so many rules and concepts have been bent or broken that the total damage to the process is greater than the sum of the parts. As a result, even well intentioned, well-informed people have difficulty understanding the budget today and our broad public policy debates suffer as a consequence.

Current budget process debates revolve around two distinctly different kinds of problems.

The first is caused by surpluses. Surpluses are not the problem. But a process designed to ensure that policy actions do not increase the deficit can be frustrating in the current surplus environment.

For example, in 1990 PAYGO was designed to prevent Congress from adding to the deficit. It seemed clear to almost everyone involved in the 1990 budget debate that adding to the deficit (which was 4 percent of GDP and rising) would have been downright dangerous. PAYGO now makes it difficult to reduce the projected surplus. Reducing the surplus is a policy issue. It may or may not be desirable. But there is no broad consensus that spending increases and/or tax cuts that reduce deficit projections are dangerous to the economy or the Nation.

Budget process must accommodate changing priorities. If it does not, eventually the process will break down. The existing process is heavily biased toward deficit

reduction. Barriers to amending enforcement provisions probably are higher than they ought to be. As the budget shifts from deficits to surpluses, some question the need for continued restraint.

Political leaders are becoming more frustrated with rules they perceive to be unrealistic as surplus projections grow.

There are, however, budget process problems unrelated to deficits or surpluses. For example, our inability accurately to measure the size of the Federal sector relative to the overall economy would be a problem in any fiscal environment. Traditional definitions and budget concepts have become so blurred that they do not inform analysis, as they ought to do.

The budget process is the product of a series of compromises over 25 years. It is complicated, some would say convoluted. There is so much duplication and overlap that no decision ever seems to be final.

Though Congress and the President seem to spend an inordinate amount of time on budget-related matters, they never reach agreement on an overall fiscal policy plan for the national government.

Since 1990 nominal dollar caps have acted as a reasonably effective constraint on discretionary expenditures, but the more restrictive caps became the less effective they proved to be, and discretionary appropriations represent a shrinking piece of the budget pie.

PAYGO acts a brake on enactment of new direct spending legislation. But there is no effective limit on direct spending that results from laws already on the books.

The Federal budget includes a number of terms and presentations that are unusual, misleading or employed in unusual ways. Examples:

• *Tax Expenditures* that walk, talk, look and act like expenditure programs. The current lexicon frequently labels such items "targeted tax cuts". Examples include the higher education tax credits enacted as part of the 1997 Balanced Budget Act and tax credits for corporations that build plants and employ people in "empowerment zones". Decisionmakers are drawn to such devices to avoid budgetary and political restraints. The effect often is to understate both expenditures and governmental receipts.

• *Refundable Tax Credits*, on the spending side of the budget, are indistinguishable from other entitlement outlays. For example, the refundable portion of the Earned Income Tax Credit (EITC) is the second largest welfare program in the budget—and four times greater than revenue losses for that program.

• *Netting*, i.e., subtracting income from expenditures at the account level for selected programs and showing the net figure as program outlays understates costs and distorts the budget picture.

• *There is a serious need to revisit some basic budget concepts*. Transparency and Universality are recognized as hallmarks of sound systems for public sector budgeting.

• *Transparency* refers to budgets that are easy to penetrate and understand.

• *Universality* means simply that all governmental financial transactions should be reflected in the budget.

The budget has become less universal and less transparent over time as policy makers tried to avoid hard choices and/or escape accountability for the choices that they made. Too many decisions are made at the end of congressional sessions, in small rooms, with few participants. Too few Members of Congress fully understand the import and impact of such decisions. Too few feel invested in the outcomes of such deliberations. There is very little accountability when decisions are reached in this manner.

Thus the budget process is unsatisfactory in several ways. It places both too little and too much restraint on fiscal policy decisions. It does not produce an accurate picture of the government's financial condition and activities. It does little to hold Members of Congress accountable to constituents.

Historically, impetus to enact and amend the congressional budget process was essentially reactive.

In the 1970's, two overriding concerns led to enactment of the Congressional Budget and Impoundment Control Act. There was backlash against President Nixon's impoundments of funds contained in appropriations bills he had signed into law; and many Members of Congress were frustrated that they had no mechanism to articulate a coherent alternative to the President's Budget.

Subsequent amendments to the process were driven by two concerns that very often clashed. On the one hand there was a need to control and ultimately eliminate record peacetime deficits. On the other hand, many Members resented the modest restraint that the budget process imposes on congressional prerogatives.

The current impetus for reform also is reactive but the specific stimuli are different. After 25 years of amendment and interpretation, many are disappointed with

the process. Some problems are common to most public sector budgeting. For example, accountability, enforceability, measurement and the question of how to frame future challenges.

• *Bias*. There is a legitimate question whether the process ought to be biased at all, and if so toward what goal(s).

• *The role budgeting should play* in the overall decision-making process is an open question. Should it simply provide a framework to keep track of receipts and expenditures, deficits or surpluses, and debt? Should the process provide a mechanism through which Congress and the President set priorities, make choices and enforce fiscal policy limits once a budget is adopted? Should it do both?

Should the two policy branches of government reach agreement on one budget or should they continue to work on separate tracks?

• *Definitions*. "Offsetting receipts," "tax expenditures," "net" receipts and outlays have been so stretched as to defy definition and distort budget presentations.

BEYOND PROBLEMS COMMON TO ALL PUBLIC SECTOR BUDGETS, THERE ARE ISSUES UNIQUE TO U. S. BUDGET such as:

• *Timing*, e.g., annual or biennial budgets;

• *Scope*, i.e., 20 functions versus broader categories such as discretionary, direct spending, receipts, etc. versus some other aggregation and/or different aggregations in different years to reflect topical concerns;

• *Enforcement*. What to enforce and how to enforce it?

• *Emergencies, Contingencies* and other exceptions to regular budget rules.

• *Technical issues unique to U.S. Budget*. Technical issues may take on political importance as they affect decisions regarding popular programs or activities.

Technical issues include, but are not necessarily limited to the following:

• *Accrual Accounting* for certain categories of receipts and/or expenditures;

• *Taxes versus mandates*—For example, the Congressional Budget Office labeled proposed premium mandates in President Clinton's health care reform proposal taxes.

• *Capital Budgeting and Trust Funds*. The President's Commission to Study Capital Budgeting made major contributions to the debate about this topic and they also recommended a Budget Concepts Commission.

The next Congress and the new President almost certainly will have to address budget process reform and fashion a more workable framework for debates on fiscal policy for the future.

We hope that this report will be of use to them and to that process. We thank the "Big Five" accounting firms for their support. Without that support, we could not have completed this project.

EVOLUTION—A BRIEF HISTORY

The Congressional Budget and Impoundment Control Act was born of frustration over President Nixon's exercise of impoundment authority. Also, in 1973 Democrats controlled Congress. Congress believed that the President's budget gave the administration an incredible advantage: The President could describe economic goals and an entire legislative program in context, in one document. Congress had no vehicle similarly to describe alternative goals, policies and programs. Congressional leaders believed that a congressional budget could diminish if not eliminate the administration's advantage in this regard.

Congressional desires to put stringent limits on Presidents' ability to withhold appropriated funds provided powerful impetus to passage of the Budget Act. Ironically the Federal courts effectively eliminated presidential impoundment authority before the Act could become law. But the great impoundment debate is a good example the law of unintended consequences at work.

For nearly two hundred years, Presidents determined not to spend, i.e., impounded, appropriated funds. President Nixon's 1974 budget impounded funds for 102 programs. The President maintained that those programs were wasteful. Previous impoundments generally had been accepted, but this time States and local governments, and other potential recipients of the impounded funds sued in Federal court.

The President took the position that congressional authorizations and appropriations provided authority to the executive to spend money but did not mandate expenditures. Plaintiffs held otherwise. Few cases were tried. In all but one (HUD) plaintiffs prevailed. (The court rulings became known as the "Ash" decisions after Roy L. Ash who was OMB Director when the suits were filed.)

None of the decisions reached the Supreme Court. Nobody knows how the Court would have ruled. But the plaintiffs might have thought twice before filing their suits had they anticipated the evolution of budget rules under the Congressional

Budget Act. Congressional leaders might have left well enough alone if they had foreseen budget caps, Pay-As-You-Go rules, reconciliation and sequestration.

Dick Bolling, John Rhodes, Ed Muskie and others who helped to write the 1973 Act said that Congress passed the law primarily because they thought it would put an end to impoundments. The Drafters of the Act knew it would not work. We know because they told us so. But none of them anticipated the evolution of the budget process as it actually has occurred.

Prior to the Act, Congress received the President's budget and for all practical purposes disassembled it. The parts were referred to relevant committees.

Appropriations Committees acted on requests for discretionary funding in at least thirteen separate bills each year. (Congress generally passed one or more supplemental bills as well).

Authorizing Committees dealt with proposals for new direct spending or for changes to existing entitlements. They wrote laws describing program designs and rules and authorizing appropriations to carry out discretionary programs and activities.

Tax Committees acted (or didn't act) on revenue proposals.

The parts of the Budget never were reassembled. As a result of this piecemeal approach, Congress could not gauge the aggregate fiscal policy impacts of their spending and revenue decisions until after the end of the fiscal year when Treasury reported actual receipts, outlays, deficits or surpluses and debt. Periodically Congress acted to increase the debt limit, but debt limit votes simply recognize and accommodate spending and revenue decisions taken in the past.

The process described in the Congressional Budget and Impoundment Control Act of 1973 was fundamentally flawed. It was designed more to keep track of Congressional decisions than to enforce them. Final decisions were not supposed to be made until the end of the process—just before the beginning of a new fiscal year and after Congress disposed of most spending and tax legislation.

There were too many budget resolutions and Congress was supposed to budget 1 year at a time.

The first budget Congress adopted each year did not really count. Reconciliation came at the end of the process. If invoked it would have reversed work that had consumed much of the congressional session. But Congress never implemented the reconciliation process as it was described in the Act. Congress first passed reconciliation instructions in the spring of 1980. That effectively ended the two-budgets-a-year regime; but they did not change the law to eliminate the Second Budget Resolution until the Gramm-Rudman-Hollings Act in 1985. (Reconciliation instructions are included in budget resolutions. They tell specific committees to report by a date certain changes in laws to reduce spending, raise or lower taxes by specified amounts.) The original Act contained no effective enforcement mechanism. Budget committees had no legislative jurisdiction and no real power.

The process was supposed to be outcomes neutral. But large deficits overshadowed all other fiscal policy concerns for nearly two decades and Members soon sought to bias the process toward deficit reduction.

A series of deficit reduction initiatives failed to produce advertised outcomes. Consequently, there was increasing focus on enforcement. For the first half of the 1980's Congress used the "elastic clause"[5] in the Budget Act to make the process more responsive to topical concerns.

In 1985, 1987, 1990, 1993 and 1997 Congress passed, and the President signed, laws formally to amend the Act and change the process.

Eventually Congress and the President achieved the desired goal. In Fiscal 1998, the consolidated budget was in balance for the first time in thirty years. In Fiscal 1999, there was an on-budget surplus.

There is a legitimate debate about whether the budget process ought to be outcomes neutral or whether it should be biased in favor of specific fiscal policy outcomes.

A biased process presupposes broad agreement around desired outcomes. For a quarter century, there was such a consensus around the goal of deficit reduction and budget balance. Now that the budget is in balance, the absence of consensus around appropriate fiscal policy goals impedes both budget formulation and budget process reform.

BASIC BUDGET CONCEPTS

TRANSPARENCY

To say that budgets are transparent is to describe our ability to look inside them and understand what we see. Citizens of average intelligence, willing to spend a

reasonable amount of time to follow public policy debates, should understand the amount politicians propose to raise in taxes and how they would spend the money. In addition, citizens should be able to weigh competing policy proposals without attending a seminar or taking a tutorial.

The 1967 Budget Concepts Commission contributed significantly to the Budget process. For two decades following enactment of the Budget Act, historically high peacetime deficits dominated budget debates.

The budget picture got bleaker. Choices became more difficult. The Budget Act demanded disclosure of a great deal of information that previously was not generally available.

Administrations of both parties abandoned traditional budget presentations. Administrations and Congresses resorted to complex accounting, shifting baselines and old fashioned "blue smoke and mirrors" to obscure budget options and outcomes. Transparency was a major casualty.

Today, it takes a real expert, a great deal of time, and access to considerable unpublished data to pierce the fog that shrouds most budgetary presentations. This is unhealthy.

Representative governments depend on the consent of voters for their legitimacy. Citizens need and deserve to know from where government gets revenue and how our tax dollars are spent. The polling booth is supposed to function as a market clearing mechanism. The political marketplace depends on transparency to function effectively. Thus, it is impossible to overstate the importance of transparency to the fundamental health of representative governmental systems.

UNIVERSALITY

Universality means that all financial transactions of the government should be reflected in the budget. We play games with ourselves when we take Social Security, the Postal Service, Highway Trust Funds and other programs "off-budget".

Taking something "off-budget" does not take it "off government". There are legitimate issues around the use of dedicated receipts;,but we should be able to answer those concerns and recognize the aggregate impact of all financial activities of government in the budget.

Given current and projected surpluses, Social Security Trust Fund surpluses serve as convenient proxy for a more analytic approach to determine minimum amounts that will be devoted to debt reduction. This example illustrates that it may be politically attractive, even useful, to treat certain pots of money as special. Most economists agree that using budget surpluses to retire public debt is prudent policy. Debt reduction increases savings available for productive private investment and thus contributes to productivity and economic growth.

Thus, debt reduction can help the country meet the challenges that will arise as the baby boom generation retires. But there is no empirically correct amount of debt reduction. Social Security Trust Fund surpluses serve as a convenient "line in the sand".

There is no logical relationship between the size of the trust fund surplus and the amount of debt reduction that makes sense in a broader fiscal policy context.

Politics may compel decision-makers to dedicate 100 percent of those trust fund surpluses to debt reduction. Earmarking trust fund surpluses for that purpose probably will produce greater debt reduction than would be the case in the absence of that policy.

But in the final instance, the size and scope of government matters. A decision to raise or cut taxes or benefits for one program inevitably impacts on other areas of the budget. That is why it is important to include all governmental financial transactions in one comprehensive consolidated budget.

That is why the administration and Congress continue to report consolidated receipts, outlays, deficits and surpluses, and debt—notwithstanding the fact that they have taken Social Security "off-budget" several times.

BIAS

Bias is a value laden word to describe the tendency of processes to produce certain kinds of outcomes. It is difficult, if not impossible, to design completely unbiased processes. Thus it is worthwhile to ask ourselves what kinds of outcomes we prefer—all else being equal—and take those preferences into account as we consider the biases that specific reforms may produce. In 1973 liberals argued successfully that the budget baseline should take into account current year spending, projected obligations, inflation, demographic changes and other factors to hold programs and service levels constant throughout the forecast period.

Conservatives have argued ever since to exclude from the baseline inflation and other factors—except as required by law. They say current spending should be the departure point for comparisons.

Neither baseline projections nor previous years' policies are the best starting point for formulating future policy. Budgets should include planned expenditures and receipts for future years. Budget debates should make comparisons to current levels, planned levels and a current policy baseline. Combined, the three tell us how much spending and receipts are going up or down, whether the changes were contemplated in the last budget cycle and whether planned or projected changes will result in increased or decreased program levels.

If Congress and the President budget to phase out the xyz program, that activity is best described in future years as adhering to plan—not as a cut. If decision-makers plan a series of spending increases for a specific function, subsequent budgets should describe such changes as "according to plan".

The actual and current policy comparisons are useful, but tracking progress based on past budget decisions could interject a level of political accountability that is absent from current budget debates.

Discretionary caps currently require Congress and the administration to compare proposed and projected spending to past budget decisions. Notwithstanding so-called "emergency" appropriations that evade the caps, those statutory limits have proven to be more effective than any other approach to discipline the Federal budget process.

In the current debate over changing "PAYGO" rules we see an odd juxtaposition of liberal and conservative positions. By and large, liberals argue to maintain the current Pay-As-You-Go rules, or relax them as little as possible, even though that could impede passage of entitlement expansions they support.

Some fear a large tax cut that could reduce total resources available to meet public needs at the Federal level; and some fear the impact of growing entitlements and tax cuts on discretionary spending for activities such as education, the environment, transportation, etc.

The budget process ought not to predetermine budget outcomes. But policy makers ought to consider the default option as they debate budget process reform.

If we are wrong about policy outcomes, do we prefer the result to be more or less expansive fiscal policy? What happens if Congress and the President reach an impasse—if they do nothing at all?

Political biases strongly favor expansive fiscal policy. Perhaps, therefore, process biases ought to be more restrictive. That could interject one more "check and balance" into the political system.

THE ROLE OF BUDGET PROCESS

Should the budget be a mirror, reflecting societal goals and aspirations or should it be a fence or series of fences to place limits around political behavior?

Adding up all the programs and policies you would like government to pursue may be an interesting and gratifying activity, but it is not budgeting.

When government budgets, it first divides national incomes between the public and private sectors. Government can make this decision because it has theoretically unlimited taxing authority. Within the public sector, the Federal budget allocates resources among competing priorities.

The 1973 Congressional Budget Act articulated a process better suited to keep track of spending and revenue legislation than to frame or constrain decisions on fiscal policy legislation. Congress was to pass a draft budget in the spring. Then they acted on individual spending and tax bills. At the end of the process, Congress adopted a final budget. They were supposed to change spending and tax laws just passed to fit within the budget, or change the budget to accommodate enacted legislation.

Not surprisingly, Congress changed the budget. In fact, Congress frequently adopted a second (amended) budget resolution in the fall—and a third (further amended) resolution the following spring.

Eventually, Congress did attempt to change spending and tax laws, i.e., reconcile them, to fit within the budget. But it was impossible to do so at the end of the year. Without changing the Act, Congress made the first budget resolution binding, effectively eliminated the second resolution, and institutionalized "reconciliation".

The reconciliation process as we know it is to be found nowhere in the 1973 Act. Reconciliation rules and guidelines were written "on-the-job"—sometimes in budget resolutions, sometimes through consultation and negotiation in leadership offices, on the floor of the House or Senate, and sometimes through parliamentary challenges.

Reconciliation rules have tended to be formalized, and incorporated in law, after the fact.

It is neither desirable nor possible to go back to a budget process that forces no choices and contains no teeth. Any effective budget process will impose some constraint on the committees that have jurisdiction over specific spending and revenue policies. Members will take issue with that. But "budget" and "restraint" are nearly synonymous concepts.

DEFINITIONS AND CONCEPTS

Definitions and concepts are easier to deal with than many other elements of the budget process. Labels neither determine, nor alter, the fundamental nature of a transaction, program or policy.

The Health Care Reform debate in the first Clinton Administration illustrates this point. Calling that proposal an employment-based private system did not make it so.

Calling taxes mandates did not fool anyone. It serves no useful purpose to kid ourselves about the nature of spending programs and tax policies. We ought not to label spending programs as tax cuts—nor tax receipts as "fees"—nor label some revenues as "negative outlays".

The revenue side of the budget should reflect all governmental receipts; the expenditure side should reflect executive branch authority to incur obligations on behalf of the Federal Government (budget authority) and actual expenditures (outlays).

"Offsetting receipts", as defined by the 1966 Budget Concepts Commission, were supposed to account for "revolving funds".

"Netting" repayments against disbursements in direct loan funds—or user fees against outlays for related business-like activities and services of government was supposed to reveal the governmental cost of such activities, i.e., the cost to be charged to the tax base.

"User Fees", as described in the report of the Budget Concepts Commission were supposed to be charges for business-like activities of government. For example, receipts from operations of House and Senate Restaurants, or from the sale/lease of mineral rights. FDA charges for expedited processing of applications for approval of new food and drug products would appear to be consistent with this definition. Fees should be scored as receipts. Offsetting receipts are scored as negative outlays. Royalties from drilling rights on the outer continental shelf offer an example of offsetting receipts. Administrations and Congresses, without respect to political party affiliation, have expanded the concepts of "Offsetting Receipts" and "user fees" beyond recognition. There are two reasons for this. They hope to avoid the "tax increase" label; and they want to increase spending; but they do not want to increase the budget caps or bust them.

Today, user fees and offsetting receipts both are "scored" as negative outlays. Negative outlays make it possible to increase expenditures without reporting an increase in total Federal spending. User fees may be good policy but this scorekeeping convention distorts budget reporting and should be severely curtailed.

The term Tax Expenditures describes revenue laws/policies that reduce, rebate or eliminate taxes that otherwise would apply to specific classes of individuals and/or activities. This may include deductions and credits that apply to millions of individuals and huge classes of activity, e.g., deductions for home loan mortgage interest and health insurance costs; it may describe provisions written vary narrowly to benefit a small group of people and/or uncommon activities.

A number of tax expenditures seem more like spending programs than tax policy. Higher education tax credits might as well be grants to individuals from families that meet statutory income limits to pay for post-secondary education. Corporations may apply for certain tax credits if they set up shop in specific areas of specific towns and cities, employ people who meet statutory guidelines, and otherwise meet statutory criteria.

Refundable tax credits actually are grants. Some people don't pay taxes. Many pay little or no income tax. Treasury writes a check for the amount of refundable credit, for which the taxpayer is eligible, in excess of his or her tax liability.

The Earned Income Tax Credit is meant to offset some or all of the impact of FICA taxes for low-income workers. The refundable (grant) portion of the program has grown larger than regular Federal welfare costs. The more politicians attempt to subsidize the purchase of specific goods and services, e.g., education and health care, the more refundable tax credits we will see. Low-income families don't pay enough income taxes to take full advantage of credits large enough to meet all those social policy objectives.

"Net outlays" distort the impact of governmental receipts and spending on incomes and the economy even more than scoring "Offsetting Receipts" as negative outlays.

With offsetting receipts, we generally record separately expenditures (outlays) and receipts (negative outlays). This distorts bottom line outcomes but discloses the gross as well as net cost of a program.

Subtracting receipts from outlays, and recording only the difference in the budget may drastically understate the cost of a program. Indeed, exaggerating to make the point, we could report negative net outlays for the entire government this year. Treasury receipts will exceed total Federal expenditures, but that does not make government free. Government will spend nearly two trillion dollars.

Budget process reform should examine the basic concept of "net outlays" and whether this convention is needed or desirable.

The same holds true on the revenue side of the budget. There are a few programs, e.g., payments to states for their shares of offshore oil revenues, where we record net income in the budget, i.e., governmental receipts, less payments associated with those receipts.

This is as deceptive as the practice of recording net outlays and should be subject to the same degree of scrutiny in budget process reform.

Beyond being able to measure the size of government—beyond the potential to mislead—policymakers should be able to assess the likely efficacy of alternative approaches to meeting specific policy priorities. Treating expenditures and receipts as if they were fungible makes this task more difficult. Choosing among possible approaches to fund priorities based on political expediency is the antithesis of choice based on efficacy and efficiency, and the latter is most likely to deliver high-quality public goods and services.

NEW CHALLENGES IN THE NEW MILLENNIUM

In the current environment, four principal factors drive debates on budget process reform.

1. *Frustration*. Some who accepted restrictive rules such as PAYGO and discretionary caps, when that seemed necessary to reduce the deficit and balance the budget, resent restraints on the use of some or all projected on-budget surpluses to offset the cost of new programs and tax reductions.

2. *Complexity*. The current budget process grew like topsy. It is ridiculously complex. Duplicative roles and overlapping responsibilities spawn redundancy and lead to conflict between and among those charged with disposition of the same issues at different points in the process.

Many Members of Congress and their staffs believe that Congress is governed by arcane rules known to very few and subject to change almost without notice. Few outside government have the time, patience, or sufficient information to follow the budget process. This is one product of evolution. Some changes are codified in law. Others are buried in unanimous consent agreements. Some rules began as tacit understandings. That puts tremendous power in the hands of those who know the rules, but it also and inevitably irritates almost everybody else.

3. *Disappointment*. The process rarely produces outcomes consistent with the promises budget resolutions seem to make. Sometimes it seems that likely budget outcomes are no clearer at the beginning of the fiscal year than before the budget process was enacted. Congress and the President rarely complete a budget cycle on time. Fiscal policy decisions seem never to be final. Members tire of debating the same issues over and over again.

4. *Future Challenges*. The U. S. population is aging. In little more than a decade, the baby boom generation's retirement, and a slower growing workforce, will put extraordinary demands on the budget and economy.

Current and projected Surpluses could mitigate transition pressures in Social Security reform, Medicare reform, tax reform, etc., the very actions necessary to meet baby boomers' needs in retirement and to meet the public service needs of the rest of the population at the same time. If we squander current and projected surpluses, it will be much harder to deal with the pressures that like ahead. Thus, budget surpluses are good news in every way except the impact that they appear to have on fiscal discipline. And current budget rules do not lend themselves to debates on how best to use surpluses to address challenges that lie ahead.

Discretionary caps may constrain somewhat the urge to spend—but "emergencies" have become welcome events because they provide opportunities to increase spending above the caps. (Sometimes the only "emergency" is an uncontrollable urge to spend money.)

Legislation enacted in 1999 reversed some of the Medicare savings enacted in the 1997 Balanced Budget Act. It is not clear whether current rules permit the use of on-budget surpluses to offset the cost of such legislation; but that did not matter. Congress and the administration seem to have reached an informal agreement that anything goes, so long as they do not have to dip into Social Security Trust Fund surpluses to pay the bills.

The budget process is a week bulwark against such pressures. It focuses on short-term priorities, not on longer-term challenges. The budget process advantages anything that is in the base, i.e., the baseline assumes that every program and tax policy on the books now will continue indefinitely into the future. Proponents must come up with offsets, i.e., cut an existing program or raise new revenue to pay for new priorities.

For example, if Congress appropriated money last year to build a dam, eliminating the cost of that dam from the current budget inevitably will be described as a cut—even though we may not need to build another dam this year. If they want to build new prisons, those costs are described as increases. A proposal to transfer the dam money to pay for prisons may be twice cursed: first for cutting water projects; and second for proposing to increase spending.

The bias in favor of the status quo is especially strong in the case of entitlement programs. Entitlement benefits continue until and unless Congress passes and the President signs a law to change the rules. And you can ask any lobbyist, it is much more difficult to enact a new law than to stop passage of any piece of legislation.

All of these concerns argue for budget process reform today. We believe, however, that the budget process debate should be expanded to include all of the issues addressed in our recommendations.

ISSUES UNIQUE TO CURRENT U.S. BUDGET DEBATES

TIMING

The Senate Budget Committee Chairman Pete V. Domenici, (R-NM), a majority of House Members, and many other experts believe the country and the Federal Government would be better served by biennial budget and appropriations processes.

Proponents of annual budgeting argue that Congress and the President would give up too much flexibility to meet changing priorities if they changed to a biennial process.

In any event, much of government remains relatively unchanged over time. Proponents of biennial budgeting say that a 2-year process would free up resources and encourage Congress to devote more time and attention to authorizations and oversight.

Finally, some say that biennial budgets would reduce upward pressure on spending and bring more stability to governmental financial transactions.

SCOPE

The Congressional Budget and Impoundment Control Act of 1973 deliberately set up budget functions different from appropriations categories. Government is managed departmentally. Thus it is appropriate to ask how much should be appropriated to the Secretary of Education, or Defense, etc. But we plan functionally. The Department of Defense manages most national security programs, but the Department of Energy manages nuclear weapons research. Nuclear weapons research belongs in the national defense function of the budget—but the money is appropriated to the Secretary of Energy.

Budgets are supposed to be broad fiscal policy plans. Over time, Congressional budgets have come to include specific assumptions at the sub-function or even program level-angering authorizers and appropriators and getting away from the basic idea of a budget.

With the advent of discretionary budget caps and Pay-As-You-Go rules, it has become necessary to include "mandatory" and "discretionary" totals in the budget. Many argue that functional detail is unnecessary. Should budgets contain 19 or 20 or more functions; or should the budget be limited to broader categories—e.g., direct and discretionary spending and such levels of detail as seem appropriate given current budgetary concerns?

JOINT V SEPARATE EXECUTIVE AND LEGISLATIVE BRANCH BUDGETS

The President sends a budget to Congress every year. Most years, Congress passes a concurrent resolution on the budget or Congressional Budget. Congress rarely votes up or down on the President's Budget—and never in modern memory

has adopted the President's Budget. The President does not sign and cannot veto concurrent resolutions. Thus, Congress and the President never do agree on a budget.

The executive and legislature eventually do agree on appropriations for discretionary programs for the budget year, generally just before or after the beginning of a new fiscal year. Sometimes they agree on changes to specific direct spending programs or revenue laws.

Many political leaders and budget experts agree that it is imperative for Congress and the President to agree on one plan.

The existence of an agreed plan would diminish the importance of so-called "baseline" debates. Moving many of the big budget compromises forward would be conducive to more deliberate consideration of substantive tax and spending legislation and ultimately to better public policy.

ENFORCEMENT/CONTROLS

The most important enforcement mechanisms in the 1973 Act were:

• A point of order in the House and Senate against any bill, amendment, or conference report that would cause total budget authority and/or outlay amounts contained in the most recently enacted budget to be exceeded;

• Points of order against consideration of any legislation that would create new spending authority or reduce receipts first effective in a year for which no budget resolution had been adopted; and

• A requirement that new direct spending legislation be referred to the Appropriations Committees of the House or Senate, so they could comment on possible impacts on future discretionary spending.

The point of order against breaching the aggregate spending limits in the budget did not work. Most often it lay against the last bill Congress considered.

Frequently, the last bill was Defense Appropriations or other "must" legislation. Congress could choose to waive the point of order, to cut bills recently enacted or force the last bill they considered each year to bear the brunt of aggregate budget overages throughout the year. Obviously, they almost always waived the point of order.

The rules have been amended to permit House consideration of appropriations beginning May 15, even if Congress has not adopted a budget by that time.

Clearly, however, enforcement provisions contained in the 1973 Act were not equal to the deficit reduction task Congresses and administrations faced in the 1980's and into the 1990's.

GRAMM-RUDMAN-HOLLINGS

The Emergency Deficit Control and Balanced Budget Act of 1985, better known as Gramm-Rudman-Hollings or G-R-H for the authors, was Congress' first serious attempt to limit spending under existing laws and policies. Previous enforcement mechanisms had attempted to put a break on enactment of new budget busting legislation.

SEQUESTRATION

• First enacted as part of Gramm-Rudman-Hollings, sequestration is a system of automatic semi-across-the-board cuts, triggered by circumstances spelled out in law.

• Almost all discretionary spending is eligible to be sequestered. The President can protect Military pay. Some other programs/activities are protected wholly or in part by statute.

• Social Security cannot not be sequestered, but within limits Medicare can.

• The initial G-R-H statute relied on the Comptroller General, as mediator between the Office of Management and Budget and the Congressional Budget Office to determine whether sequestration would be triggered—and if so how large it should be. Members of Congress (led by Mike Synar (D-OK)) sued. The courts held that this was an unconstitutional delegation of executive authority to the Comptroller General who does not serve at the pleasure of the President. The courts upheld Synar.

• Subsequently, Congress amended G-R-H, giving OMB the final say on whether sequestration is triggered and how big any cuts would be. At the same time, Congress reaffirmed the sequestration that already had gone into effect lest the courts overturn that action based on the Synar decision.

G-R-H failed for two reasons:

1. It attempted to enforce deficit levels. That is the wrong target because deficits are derivative of expenditure and revenue levels, and because very minor changes in economic conditions and technical estimates can cause wide swings in the deficit.

2. The limits established in law were unrealistic. Actual deficits were bound to be much higher than the limits contained in the law every year. There never was a real chance that actual deficit levels would conform to the statutory limits.

BALANCED BUDGET ACT (BBA).

Twice having amended G-R-H, and having conjured up a fair amount of blue smoke and mirrors to limit or avoid sequestration, Congress and the President adopted a new approach to enforce the 1990 Balanced Budget Act. The Budget Enforcement Act was an important first step toward forging agreements between the executive and the legislature to achieve specific fiscal policy goals.

Most of the committee's current recommendations for budget process reform are based on successes of the BEA.

• The BEA wrote nominal dollar expenditure caps into law—separate caps for defense, international and domestic spending in the early years, aggregate budget authority and outlay caps in the last 3 years.

Establishing a pattern that has obtained since that time, the caps were quite generous in the first year, becoming more restrictive with the passage of time.

If discretionary spending is projected to cause one or more cap to be exceeded, sequestration reduces pro-rata all eligible programs and activities under that cap. It does not matter whether outlays derive from prior year budget authority or new legislation—or some combination thereof—any overage causes a sequester. (There is a fudge factor to keep a very small breach from triggering sequestration.)

• Pay-As-You-Go or "PAYGO" rules are designed to ensure that enactment of new legislation does not increase direct spending, reduce revenues, or widen the deficit. Entitlement increases or revenue reductions must be offset by reductions in entitlement spending or revenue increases.

If spending under current laws and policies exceeds budget estimates nothing happens. If new legislation is enacted that widens the deficit due to increased direct spending or reduced revenues, sequestration is triggered and applies to all eligible direct spending accounts.

SINCE 1990, THE BEA HAS BEEN AMENDED TWICE—as part of the 1993 Omnibus Budget Reduction Act, and in the 1997 Balanced Budget Act. Both times, existing discretionary spending caps went up a lot for the budget year but got tighter in subsequent years, contributing significantly to the savings and deficit reduction each bill was supposed to achieve. Both times, Congress and the administration tweaked the rules for adjustments to the caps and gave themselves a little wiggle room. The sequesterable base has expanded somewhat since 1990.

So-called "emergency" spending is not subject to the caps. Congress and the administration must agree to designate something an emergency. Otherwise, there is no real limit to what they can call an emergency. The outlay caps for 1999 and 2000 have been adjusted upward by $25–$30 billion[6] for emergencies and other requirements, most of it for routine operating costs of government. (Only 8 states have total budgets in excess of $25 billion per year.[7])

In 1997, a bipartisan group of House Members attempted to amend the balanced budget act to require the President and Congress to agree on a Joint Budget Resolution, to add nominal dollar caps for entitlement spending (enforced by sequestration), revenue enforcement, and rules to close the "emergency" loophole.

Elements of that amendment are reflected in most subsequent budget process reform legislation.

BUDGET PROCESS REFORM THIS YEAR

The President's Budget last year raised the possibility of a joint budget resolution and argued the need to tighten controls over emergency spending. This year's Budget proposes to change the discretionary spending caps. It argues that the new caps should grow to keep pace with inflation. The Budget also supports enhanced rescission.

The Senate Budget Committee maintains that paygo rules do not apply to legislation, the effect of which would be to diminish an on-budget surplus but not cause the government to incur an on-budget deficit.

A number of bills have been introduced to codify the Senate Budget Committee position, including the Nussle-Cardin bill H.R. 853.

Several bills (including Nussle-Cardin) would require Congress to pass a joint Resolution. (See diagram at page 42.)

The Nussle-Cardin bill, reported from the House Budget Committee, addresses most of our Committee recommendations, with one major exception. The joint resolution would contain amounts for entitlement spending, but it would not include enforceable entitlement caps.

Congressman John Spratt (D-NC), Ranking Democrat on the House Budget Committee, has introduced enhanced rescission legislation. It seems likely that the same majorities in both bodies that supported line item veto (since declared unconstitutional) will support enhanced rescission in its place.

The Senate Budget Committee Chairman has introduced legislation to shift to a biennial budget and appropriations cycle. Two hundred forty-five House members signed on to House Resolution 396 supporting biennial budgets and appropriations.

Several bills and resolutions seek to ensure that Social Security Trust Fund surpluses cannot be used to pay for non-Social Security activities—and once again to "take Social Security off-budget".

Heaven knows how many times Congress will pass such legislation, but the amount they spend for everything else ultimately will determine whether or not Social Security Trust Fund receipts are used to pay for other programs, activities and functions of government.

Most of the legislation currently before congress is intended to scratch this year's itch, i.e., to rewrite (or clarify) paygo rules for an era of surpluses, to address in some fashion the embarrassment surrounding emergency spending, and/or to convert to a biennial budget cycle.

Most of these bills would not eliminate the duplication, overlap and redundancy in existing law nor truly reform the process to meet future needs. Most do not claim to do so.

ENFORCEMENT BASED ON EXPENDITURE LIMITS

Decision-makers in democracies that have balanced budgets (including our own) by and large agree—the key to budget discipline is expenditure discipline. H.R. 853 would not establish limits on entitlement spending, but it moves in that direction—proposing to write into law direct spending targets.

There is no objectively right level for Federal spending. The right level best is judged by taxpayer support expressed as a willingness to pay taxes sufficient to pay the bills. If political leaders reach agreement on how much government should spend, and keep spending within budgetary limits, we are unlikely to return to a regular regime of rising deficits and debt.

The Committee for Responsible Federal Budget supports H.R. 853, but we believe that there should be caps for mandatory as well as discretionary spending. Caps should be expressed in nominal dollars. They should be adjustable for actual changes in economic conditions and demographics, where such factors affect spending levels, e.g., entitlement caps should go up to accommodate rising unemployment. Automatic changes to the caps should be rare and strictly proscribed in law. Congress and the President should be able to change the caps at any time—provided any Member of the House and Senate may demand a separate vote solely on that issue.

The caps contained in the most recently enacted joint budget resolution should continue in force until new or amended caps are enacted.

Caps should be enforced through sequestration, and sequestration should operate to create incentives for committees to conform expenditures for programs within their jurisdictions to the limits contained in the budget. Thus sequestration should be triggered only when aggregate spending for a major category (discretionary or direct spending) exceeds the total cap. But once triggered, sequestration should reduce spending only for programs in the offending categories, i.e., categories that caused the overage.

Sequestration should be triggered, at the beginning of the year, if spending is projected to exceed statutory limits. Sequestration should be triggered any time in the first three-quarters of a fiscal year, if new legislation is projected to cause an overage. If legislation enacted in the final quarter of a fiscal year is projected to cause an overage—or if actual expenditures for the fiscal year just completed exceed statutory limits—the caps for the new budget year should be adjusted downward to make up the difference.

EXCEPTIONS, E.G., CONTINGENCIES, EMERGENCIES, AND NEW PRIORITIES

The foregoing enforcement section points out that so-called emergency spending is exempt from statutory caps that otherwise limit discretionary spending. The administration and many Members of Congress criticize the abuse of this provision. Most budget process reform proposals attempt to address the problem.

Many would establish a contingency fund as part of the fix.

With the advent of expenditure caps, however, another issue has arisen. The caps tend to become floors. Outlays from prior years' budget authority may crowd out

current priorities. Caps have tended to become more restrictive, in the out-years, 3–5 years after adoption of the most recent revisions.

Caps are the most effective expenditure mechanism ever attempted to place real limits on Federal spending and enforce the limits we set. But Members of Congress begin to feel as if there is no truly discretionary money in the budget at all.

The question is: How to create room under the caps to fund new high priority programs and initiatives—or at least to put such new initiatives on equal footing with programs and activities that are "in the base"?

Should there be some sort of "Sunset" rule that requires Congress and the President to reauthorize all existing expenditure programs, on a rotating basis, over some period of time?

Should there be a higher barrier than exists in current law, e.g., points of order or super-majority votes, to impede funding for programs that are not reauthorized on schedule?

Is there a way to create a pot of truly discretionary money under the caps?

How much is too much? Demand truly does appear to expand to subsume available resources—and in subsequent years seems to equal last year's spending, plus inflation, plus an allowance for new initiatives.

Political pressures to increase spending are not new. What is new, or worse than it used to be, is the assumption that everything in the base is inviolable. Therefore, any new program, activity or priority must mean a real increase in government expenditure. It appears that part of the emergency problem is the desire to take credit for spending above the baseline for high priority initiatives.

Is there a way to accommodate that demand within an expenditure-limited environment and if so how?

Is it possible to provide a real contingency fund—one that would not be expended as part of the regular annual appropriations process? How?

TECHNICAL ISSUES

Accrual Accounting. Government operates a number of insurance programs and accounts for them on a cash basis. The annual inflows and outflows of cash provide little indication of the long-run subsidies provided to the beneficiaries of those programs. The cash flows provide little warning of problems looming over the horizon. For example, the problems of the thrift industry and the consequent threat to the financial health of the government's deposit insurance fund were known long before the extent of the problem showed up in the fund's cash flows.

If accounting for the fund had been done on an accrual basis, the Congress might have been induced to act more quickly, thus saving tens of billions of dollars.

Similar problems afflicted the government's credit programs before the Credit Reform Act of 1990 (CRA).

Cash accounting often made it appear as though a new loan guarantee program reduced the deficit because of the fees it charged.

In actuality, those fees were not sufficient to cover the contingent liabilities created for the government in the long run. Conversely, direct loan programs looked far more expensive than they actually were in that the large cash disbursement occurring when the loan was made was recorded immediately, whereas loan repayments were reflected in the budget as funds were received.

The CRA fixed the problem by accounting for credit programs on a present value basis. The excess of the present value of the outlays associated with a program compared to the present value of its receipt measures the subsidy provided to borrowers.

Many advocate a similar approach to accounting for insurance programs. Estimating future liabilities may be more difficult than with credit programs, because insurance programs often insure against catastrophic events that have a very low probability; e.g. the explosion of a nuclear plant. Small changes in the analysts' estimate of the probability of a catastrophe can mean very large changes in the estimated cost of a program and the subsidy that it conveys. But underwriting, i.e., projecting risks and costs accurately, is the essence of insurance. The subsidy conveyed by many insurance programs is much easier to estimate; e.g. veterans' life insurance and mortgage insurance. It has been suggested that we start gradually with the easiest cases and further study how to deal with those that pose difficult conceptual problems.

There also arguments for applying accrual concepts to the analysis of tax provisions that have long-run impacts that differ considerably from their short-run impacts, e.g., under reasonable assumptions traditional IRAs and Roth IRAs impose the same revenue loss over the long run. However, the truncated time horizons used by the budget process to evaluate tax changes makes the Roth IRA appear much cheaper.

CAPITAL BUDGETING

Capital budgeting is a very popular concept with many individuals and groups for many reasons. On the one hand, proponents argue that the private sector, State and local governments use capital budgeting to match expenditures that have long-term benefits to streams of revenue to be realized over the useful life of physical assets. On the other hand, many experts fear that a capital budget for the Federal Government would create a privileged class of expenditure. They fear an overwhelming temptation to include high priority items, along with a lot of pork barrel spending, in the capital budget.

Many differences derive from discussions of a Federal capital budget as if it applied only to the expenditure side of the budget. If it were necessary to identify and raise revenues to pay for capital expenditures—and budget for depreciation—the capital expenditures would appear as costly as any other budget outlays.

Even if capital expenditures appeared as costly as other government programs, there is a risk that the label "investment" could create a cache and advantage expenditures included in that category.

That leads to the problem of definitions. Reasonable people can and do disagree about just what constitutes capital expenditures in the Federal sector. Education is included as a capital expenditure in the Special Analysis that accompanies presidential budgets. Some experts say all defense spending—including hardware—should be scored as an operating cost to the government. Thus, they worry about the capital budget concept expanding to include inappropriate (but popular) programs.

The President's Commission to Study Capital Budgeting report makes major contributions to this debate, especially in the area of definitions. That Commission reached the conclusion that the issue should be considered in broader context by a new budget concepts commission.

The Federal budget already reflects "budget authority", "contract authority", or "new obligation authority" in the year in which we commit to major long-term investments. Investment outlays are recorded as they occur. The budget impacts would not be much different if we had a capital budget.

The real problems around Federal investment spending derive from competing priorities and presentation.

Outlays from prior year commitments impinge on high priority spending in the budget year. Decision-makers may be tempted to lease rather than purchase physical assets to avoid very large commitments of budget authority up front and very large outlay tails.

Leasing may prove counterproductive. Leases may impose a larger mortgage on future resources than purchases because the government will have to enter new agreements when the leases expire.

Future costs are not reflected in the budget. The budget does record contractual commitments for as long as those commitments continue. Nonetheless, it is not at all clear that investment spending is disadvantaged in current budget debates.

Spending for programs that create jobs and other visible benefits are very popular back home. Spending for highways and airports received preferential treatment in legislation before Congress last year, notwithstanding generally tight budgetary restraints.

Capital budgeting is one of a series of problems around presentation and priorities posed by the current budget process. Reform should address all of those issues. Given the attention focused on capital budgeting in recent years, reformers probably should pay close attention to any bias against investment spending that may exist in the current or proposed budget processes.

TRUST FUNDS

Experts and non-expert cynics both have remarked that there is no trust in Federal trust funds. That is unfortunate because such funds exist largely to assuage anxiety around very popular programs. The "trust fund" nomenclature is familiar to most people and we think we know what it means. But Federal trust funds are subject to none of the rules and regulations intended to protect and maintain fiduciary responsibilities in private trust funds.

Federal trust funds are an accounting device, generally intended to keep track of dedicated receipts and calculate obligations (implied or statutory) for government to deliver specific payments or services based on those payments.

We probably ought to abolish the term trust fund from the budget vocabulary. But that would be very hard to do.

Budget process reformers should consider creating substantial barriers to the establishment of new trust funds. To the extent possible a reformed budget process

should more accurately describe trust fund programs in terms that describe what they are supposed to do and how they are supposed to work—in language most people can understand.

When Congress and the President dedicate revenues from specific sources to pay for particular programs, they create a presumption with regard to appropriate expenditure levels. Sometimes they write those expenditure levels into law, in the form of entitlement benefits and formulae. If dedicated receipts fall short of amounts needed to fund planned expenditures, there often is tremendous pressure to make up the short-fall from general revenues.

In the case of the Highway program, Congresses and Presidents have spent significant general fund resources on trust fund programs since the trust fund was established. Nonetheless, there is tremendous pressure to spend all trust fund collections on highway trust fund program.

The difficulty with this presumption about appropriate levels of expenditure for specific programs best can be illustrated by an extreme example. If we found ourselves in another World War, almost everybody would agree that we could cut back on trust fund programs, and redirect resources to fight the war. The principal also holds true in less extreme circumstances.

Priorities change over time. Congresses and Presidents must be able to redirect resources away from lower priorities as new, higher priorities emerge. That is the difficulty with earmarking huge parts of the budget years into the future. And that kind of earmarking is the main point of most so-called trust funds in the Federal budget.

Budget process reform should focus on ways to clarify the fact that those trust fund reserves held in the form of U.S. government debt are liabilities, not assets, on the government's balance sheet.

A reformed process should disclose whether dedicated taxes likely would be sufficient to meet future commitments.

The process should disclose future claims on general funds to meet trust fund obligations—and the implications for other programs, for future flexibility, the overall size of government, tax burdens and future borrowing.

MANDATES

There are two major issues around mandates:

1. Almost all economists, experts and analysts agree that political decisions to direct the use of resources toward public policy purposes ought to be transparent—that political leaders be accountable for such actions.

2. There is a great deal of controversy within the economic/ analytic/ expert community about the budgetary treatment of mandates, i.e., when a mandate becomes a tax.

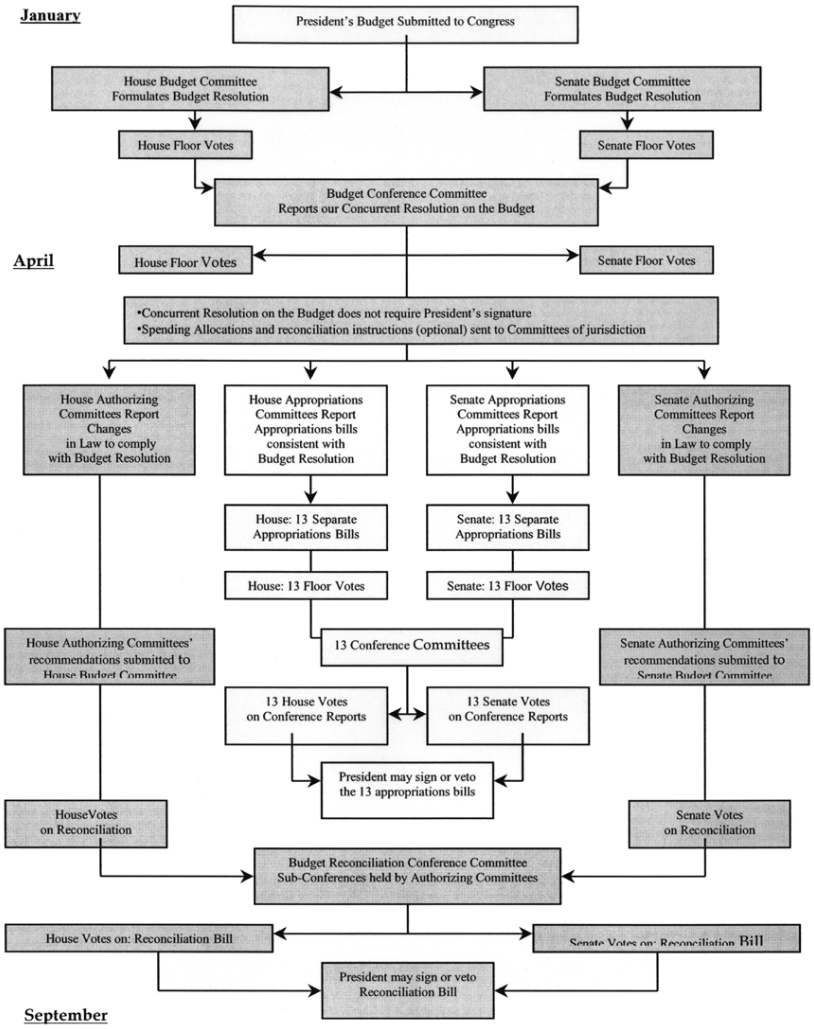
The Clinton Administration proposed health care reform, and recent Social Security reform debates, illustrate dramatically the temptation to employ mandates to direct resources to specific public purposes without raising taxes. It is not always easy to determine exactly at what point a mandate stops being a mandate and becomes a tax. This may be a topic for a new budget concepts commission. In the meantime, it is imperative to make such distinctions based on the characteristics of the proposed activity—not on labels.

RELIANCE ON "SCOREKEEPERS"

Budget enforcement relies to an extraordinary extent on Congressional Budget Office and the Office of Management interpretations of budget concepts and scorekeeping conventions.

Experts play a crucial role to inform the political debate. Policymakers ought to have the best possible estimates of likely impacts of proposed actions before they enact economic policy legislation. But the experts are most comfortable and effective when there exists broad consensus around concepts and clear definitions of terms.

The professionals at CBO and OMB are not supposed to make policy. CBO and OMB are no more comfortable than their political masters when their decisions seem to direct rather than inform policy. Both policymakers and the professionals who serve them do best when there is wide understanding of and agreement about what ought to be reflected in the budget, how and why.



RECOMMENDATIONS

1. *Joint Budget Resolution*. Congress and the President should agree on one budget for the country. So long as the two policy-making branches of government work from separate budgets, there really is no such thing as a budget or fiscal policy plan for the country.

The Joint Budget Resolution should include fiscal policy goals—aggregate revenues and expenditures, surpluses or deficits, debt levels and/or debt reduction targets.

2. *Expenditure Limits*. Expenditure discipline is the key to budget discipline.

There is no objectively right level for Federal spending. The right level is the one we will pay taxes to support over a reasonable period of time. If political leaders agree on expenditure limits, and keep spending within the limits they set, we are unlikely to return to a regular regime of rising deficits and debt.

There should be separate caps for defense, and non-defense discretionary spending—separate caps for large entitlement

programs and a residual category for "all other" direct spending—and additional caps as needed. Caps should be enacted as part of the joint budget resolution.

Caps should be enforced through sequestration. Sequestration should be triggered by a breach of the aggregate limit(s) for discretionary or mandatory spending. Automatic reductions ought to apply only to the categories that cause the breach.

3. *Pay-As-You-Go* (PAYGO) discipline should be maintained. Joint Budget Resolutions should spell out the amounts of any projected surpluses available to offset entitlement increases and/or revenue reductions. Entitlement increases and revenue reductions, in excess of amounts contemplated by the budget, should be subject to Pay-As-You-Go rules.

4. *Rainy Day Fund*—"Emergencies." Most States maintain "rainy day" funds as buffers against unanticipated budgetary pressures. Surprises almost always cost money. It is important to set aside a reasonable reserve against emergencies and other unforeseeable contingencies.

Nothing can keep Congresses and Presidents from enacting so-called emergency spending in excess of any amounts set aside for contingencies. Coupled with strong rules governing the use of such funds, however, budgeting for contingencies could do much to eliminate the embarrassing, recurring pattern in recent years of very large so-called emergency appropriations bills. Further to ease pressures for emergency appropriations, Presidents should not be permitted unilaterally to make loans to States to meet matching requirements, nor should they be able unilaterally to waive repayment for such loans.

5. *Biennial Budgets, Appropriations, and Tax Cycles*. A biennial budget cycle should free up significant resources in the executive branch and on Capitol hill—resources that could be redirected to more pressing priorities.

But biennial budgets coupled with annual appropriations and tax legislation almost certainly would prove to be unsatisfactory.

There should be substantial barriers to enactment of spending and tax legislation in non-budget years, else Congresses and Presidents well might drift back toward an annual cycle as spending and tax legislation seems to be more compelling than authorizations and oversight.

7. *Automatic Continuing Resolution*. An automatic continuing resolution at or below the level of the caps contained in the most recently enacted budget should provide stop-gap funding in the event Congress and the President cannot agree on some or all regular appropriations bills.

If there are no caps, the automatic continuing resolution should hold spending below the current level, to provide an incentive for passage of regular appropriations bills.

8. *Spending is spending and receipts are receipts. The Budget should distinguish clearly between outlays and revenues*. There should be strict limits on offsetting receipts, user fees and other net outlays. "User fees", "offsetting receipts" and "negative outlays" have been sorely abused in recent years to make the government seem smaller, and spending seem lower, than actually is the case. There should be carefully crafted rules to define what constitutes a user fee, and what ought to be netted against program outlays, and those rules ought to be rigidly enforced.

Programs that have all the characteristics of Federal grants should not be reflected in the budget as tax expenditures.

9. *Enhanced Rescission*. The House and Senate Appropriations Committees should be required to report, and the leadership in both bodies should be required to schedule votes on presidential rescission proposals within a specific period of time. Otherwise, any Member of Congress should be able to offer a highly privileged, non-debatable motion to proceed immediately to consideration of the President's rescission proposal(s).

11. *Budget Concepts Commission*. Basic budget concepts and definitions best may be addressed in a Budget Concepts Commission comprised of experts including, but not dominated by, representatives of the administration and Congress.

Much has changed since the last Budget Concepts Commission in the 1960's. The Committee believes that it is time for a new Commission.

Moreover, the Committee believes that new Budget Concepts Commissions should meet at regularly scheduled intervals—perhaps every decade or every 25 years.

A concepts commission is the best venue in which to address technical issues such as:

• A shift from strict cash accounting to accruals for insurance programs—and perhaps for a limited number of other governmental financial activities. For example, employees' full accruing retirement costs under the old military and civil service retirement systems could be charged as agency cost and recorded as budget authority. That is the way FERS is treated in the budget today.

• The distinction between mandates and taxes. There always will be political dimensions to any budget-related issue; but issues such as accrual accounting and

what to include in the budget can seem downright arcane. Political discourse around such issues should be informed by expertise.

• How to account for or score Federal Government investments in private securities. There are a number of proposals currently under consideration for Treasury to make such investments. The 1967 Budget Concepts Commission never considered the issue. There is no consensus among experts regarding the proper budgetary treatment of such investments. The Committee believes that a Budget Concepts Commission can best address these issues.

ANOTHER POINT OF VIEW

Robert Reischauer, President of the Urban Institute, a member of our Board and former Director of the Congressional Budget Office articulated the views of experts who disagreed with those of the Committee at the meeting we convened last fall to discuss these issues. We have invited Bob to summarize his comments here.

1. *Joint Budget Resolution*. This sounds good in theory but it won't work. Congress and the President would wrangle over the contents of the JBR until August and it would become another source of delay. Messy as the Congressional Budget Resolution (CBR) may be, it reflects and is consistent with the system of divided government.

In the 1980's I suggested a two-step process. The President would send a budget to Capitol Hill and Congress would pass a skeletal CBR containing economic assumptions, total revenue and spending (and dividing spending among defense, non-defense and mandatory categories).

Once Congress passed the CBR, the President would prepare a second budget, conforming to the CBR plan. Then Congress would pass another concurrent resolution, containing committee allocations and reconciliation directions.

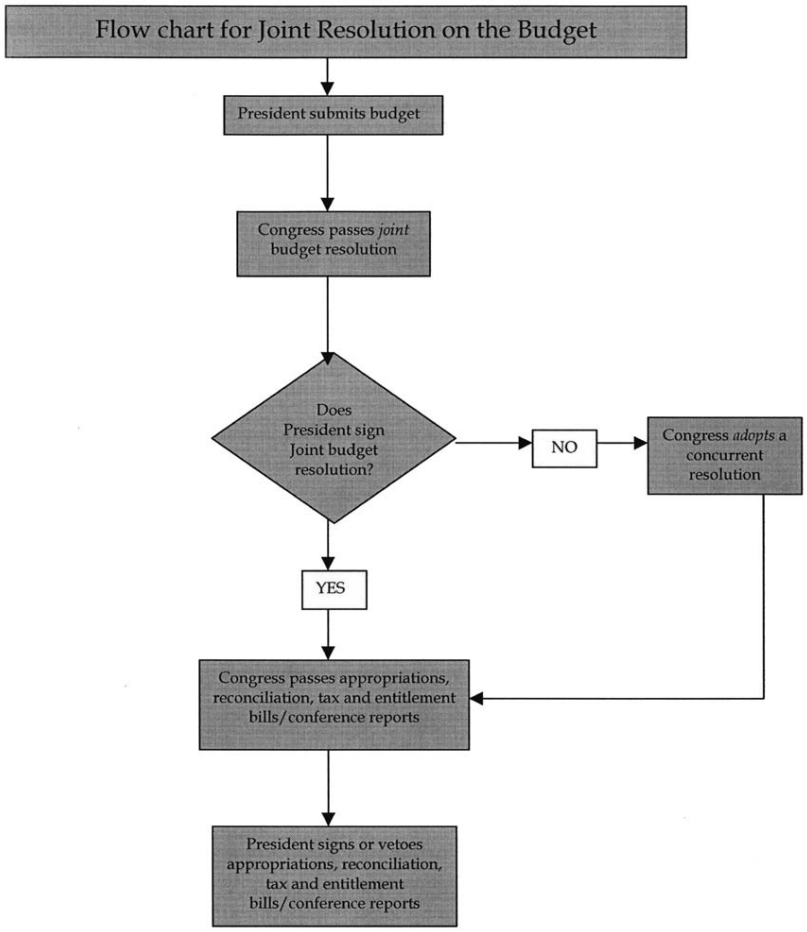
Finally, Congress would pass, and the President could sign or veto appropriations and reconciliation legislation. That system would have been very cumbersome. At the time, however, we were facing huge deficits; Congress and the President seemed incapable of cooperation, and I thought my cumbersome system was preferable to Gramm-Rudman-Hollings. Now I am not even sure about that.

2. *Expenditure Limits*. Expenditure limits are fine for discretionary spending, providing they are set for no more than 5 years at a time. There must be a mechanism for revisiting the limits and there must be wiggle room such that provided by the emergency provisions in current law. I do not believe that there ought to be separate caps for defense and non-defense spending. Separate caps may preclude tradeoffs and that is unwise.

I do not favor entitlement caps. They would undermine the basic reason for establishing certain programs as entitlements.

3. *PAYGO* in some form is desirable. I favor redefining the part of the budget that is "in play" to exclude Social Security, Medicare and Unemployment Compensation surpluses. Having set aside those amounts, I believe the budget should divide remaining surpluses into three slices—on a year by year basis: one for tax cuts, one for changes to mandatory spending, and one for debt reduction.

4. *Rainy Day Funds* don't make a lot of sense at the Federal level unless you want to count the "debt reduction" slice I suggest above as a rainy day fund. I always have been for amortizing emergencies voted in the current year over the next 5 years, unless an explicit stand-alone vote said that they could be treated as "water over the dam".



OTHER EXPERTS' OPINIONS—FEEDBACK FROM FALL MEETING

Barry Anderson, Deputy Director, Congressional Budget Office, took advantage of this opportunity to make a strong case for a new budget concepts commission. He said that the environment today is similar to the environment that argued for a commission in the 1960's.

In the 1960's confusion arose because the President's Budget contained three separate budget presentations: national income accounts budget, administrative budget, and consolidated cash budget. Today there is just as much confusion around on-budget, off-budget, and unified budget presentations. Congressional and public understanding of the budget is no better today than in the 1960's.

In the 1960's technicians and policymakers were unhappy with accounting for loans, business-type receipts, and debt financing other than borrowing.

Today their counterparts are concerned about budgetary treatment of tax credits and a large number of purely financial transactions including transfers of Treasury securities to trust funds and Federal purchases of private marketable securities.

We continue to benefit from the legacy of the 1967 commission, especially the forceful case they made for a single Federal budget that comprises all Federal fiscal activity.

But that was then and this is now. The budget process and the environment in which it functions have changed and today there is a real need for a new commission on budget concepts.

In 1967, there was no explicit Congressional Budget Process and no BEA8. The country had not experienced runaway peacetime budget deficits. Uncontrolled mandatory spending was primarily an academic concern.

Baby boomers were entering the labor force, not preparing to retire. The tax code and most Federal policies seemed much simpler then.

The case for a single comprehensive budget remains as compelling today as in the 1960's, but that does not answer questions about when, how and what Federal activities are to be scored in the unified budget. To illustrate that point, Barry offered a series of examples:

- What is the right budget horizon?
- Shift from cash to accruals—for what?
- Expenditures and Receipts—how to distinguish between them?
- Seigniorage and coinage—similar activities should be treated similarly.
- Potential Arbitrage—how to treat gains and loses due to government borrowing at the risk-free rate and investing in risky assets.
- Probabilistic budget scoring.
- Assets acquired through long-term leasing.
- Non-appropriated fund instruments, eg., military PXs.

In conclusion, Barry pointed out that this is not an exhaustive list of issues—but that the list certainly is long enough and weighty enough to argue the need for a new commission. He said that public scrutiny of budgetary gimmickry is useful but no substitute for careful assessment of larger conceptual issues. What exactly is an outlay? What is a receipt? What is a trust fund? How should the budget recognize long-term commitments?

Technicians cannot answer such important questions alone. The policy dimensions are too far-reaching.

A new nonpartisan commission on budget concepts would greatly enhance and bring order to the current debate on reforming the budget process.

SUSAN IRVING, ASSOCIATE DIRECTOR FOR FEDERAL BUDGET ISSUES, GENERAL ACCOUNTING OFFICE

It is important to remember that the 1974 Act did not seek a specific result in terms of the deficit. Rather, it sought to assert the Congress' role in setting overall Federal fiscal policy and establishing spending priorities and impose a structure and timetable on the budget debate.

Underlying the 1974 Act was the belief that the Congress could become an equal player only if it could offer a single "budget statement" with an overall fiscal policy and an allocation across priorities. Prior to 1974, the congressional budget was the cumulative result of individual pieces of legislation. The Congress did not examine or vote on overall spending or revenues.

The Act was crafted in recognition of existing power structures in the Congress. It carefully avoided giving the budget committees anything like the power, or even the coordinating role, of OMB. Among its most important elements was the creation of CBO. This eliminated the Congress' dependence on OMB for numbers and analysis by giving Congress an independent source of budget numbers.

It is not until the deficits of the 1980's that we see the budget process changed into a process designed to drive deficit reduction.

It is not until 1985, and the law commonly referred to as Gramm-Rudman-Hollings that the Act was amended to reflect the changing focus of the process—from increasing Congressional control to reducing the deficit.

Both the original GRH and the 1987 amendments sought to achieve a balanced budget by establishing annual deficit targets to be enforced by sequesters if legislation failed to achieve them. Measured against its stated objective, GRH failed.

The perceived failures of GRH led to the Budget Enforcement Act (BEA). BEA seeks to limit congressional action and so to influence the result.

Unlike GRH, BEA holds Congress accountable for what it can directly control through its actions, and not for the impact of the economy or demographics, which are beyond its direct control. And on those terms, BEA has been a success.

GRH showed us that no process could force agreement where one does not exist. In contrast, BEA established a process to enforce a previously reached agreement. One could argue that the recent experiences with the discretionary caps under BEA emphasize the first point. There no longer exists substantive agreement that the caps are realistic so there is greater use of exemptions.

I would argue that the BEA succeeded on its own terms. The PAYGO mechanism succeeded in preventing either significant entitlement expansions or significant revenue reductions. For most of its history, the caps held. For most of its existence, the issue in BEA has not been whether it succeeded or failed but on the limitations

of its ambition. BEA did not seek to trim existing entitlement programs—and it has not done so. What then about a budget process for the future?

We ask a great deal of our budget process. We want it to surface the important choices in a way we can understand and focus on them. We use it both to determine fiscal policy and to drive program management. In the Results Act world, we turn to the budget to tell us something about the cost of obtaining a given level of results. We want to understand the full cost of choices when we make them.

GAO has previously suggested some broad goals for a budget process. It should:

• Provide information about the long-term impact of decisions while recognizing the increased uncertainty that comes with long-term projections or simulations;

• Provide information and be structured to focus on the important macro trade-offs.

• Provide information necessary to make informed trade-offs between different tools; and

• The process must be enforceable, provide for control and accountability and be transparent.

It is still an open question whether a budget process must be designed to advance a particular fiscal goal or whether it could be designed as a vehicle for Congress to assert a fiscal goal and its priorities.

It can be instructive to look at how other countries have thought about the advent of budget surpluses. In a report GAO issued last fall, we discovered that a number of industrial nations had found ways to look behind the immediate budget window and move beyond single deficit measures.

They sought to adopt a new fiscal paradigm and a family of measures that included debt as a share of the economy.

Clearly, the budget debate must find a way to deal with the near-term and the certain knowledge that these surpluses, although welcome, will be overwhelmed by a demographic tidal wave unless there are changes in the structure of Social Security and Medicare. And these are not the only long-term cost pressures facing us.

REPRESENTATIVE JOE BARTON (R-TX)

Congress passed bipartisan balanced budget agreements in 1982, 1985, 1987 and 1990. None balanced the budget. The strong economy deserves more credit than anything Congress or the President have done to balance the budget and produce projected surpluses.

Nonetheless, we learned from our earlier experiences: what matters in budget agreements is what Congress and the administration agree to enforce and how they enforce it.

In 1995 and again during consideration of the 1997 budget agreement, Charlie Stenholm, David Minge and a lot of other Republicans and Democrats joined me to introduce budget process reform legislation based on effective expenditure limitation. We continue to believe that the budget process needs reform and we continue to work with other members and groups outside government toward that goal.

Priorities for reform should include:

• Joint Budget Resolution. For all the reasons articulated in the discussion paper prepared for this meeting and by many of the speakers here, it is imperative for Congress and the President to agree on one budget for the country.

• Caps for both Discretionary and Entitlement Spending. There should be separate Defense and Non-Defense discretionary caps. There should be separate caps for big entitlement programs. Sequestration should be triggered by breech of the overall limit for discretionary or entitlement spending—but it should reduce only the categories that caused the overage. Caps should be adjusted for changes in actual economic conditions and numbers of human beneficiaries.

Congress and the President could change the caps by simple majority vote. There should be no super-majority vote requirement. But congress should be forced to vote up or down on whether to increase spending over the amounts contained in the most recently enacted budget. That vote should not be buried inside a big omnibus bill.

Establish a Rainy Day Fund and close the emergency loophole. I support the Nussle-Cardin bipartisan budget process reform bill. It does not go as far as I would like, but it would be a big step in the right direction.

Biennial Budgeting is important to reduce the time and resources that the executive and legislative branches devote to budgeting, provide greater certainty to program managers and mitigate upward pressure on spending. But biennial budgets would not produce those desirable outcomes. Appropriations and tax legislation also would have to shift to a biennial cycle. Of course, a 2-year cycle would be most effective in concert with the other changes recommended above.

REPRESENTATIVE PORTER GOSS (R-FL)

With Representatives Nussle, Cardin and many others on both sides of the aisle, I have worked to produce a bipartisan approach to reform the budget process.

More recently, the Rules Committee has focused on biennial budgeting. There is so much support for that idea that this Congress just might pass a law at least to test a 2-year budget cycle.

As Chairman of the Subcommittee of the Rules Committee that has jurisdiction over congressional process, including the budget process, I am keenly aware that even H.R. 853 goes too far for some and does not go far enough for others.

The most contentious items in the bipartisan bill are the automatic continuing resolution and the PAYGO rules. I am confident that we will work out something on those issues, to satisfy a majority of the House, and I expect that we will take up budget process reform in this Congress.

We look forward to working with all of you to enact sound budget process reforms. The current process is not working well. We have to fix it. I congratulate Jim Nussle, Ben Cardin and all the other Members who have worked so long and so hard to get the issue to this point. And I hope that all of you will work with us to help us write a good bill into law.

REPRESENTATIVE JIM NUSSLE (R-IA)

The chart at page 41 illustrates the budget process under H.R. 853, the Comprehensive Budget Process Reform Act of 1999. That bill creates a joint budget resolution and a reserve fund for emergencies, a lock box to ensure savings from floor amendments actually reduce spending, and an automatic continuing resolution to avoid government shutdowns.

It reaffirms the special budgetary status of Social Security, strengthens budget enforcement and accountability for Federal spending and the debt limit, lengthens the budget horizon to 10 years, improves budgeting for long-term liabilities, relaxes existing PAYGO rules and reforms the Byrd rule.

REPRESENTATIVE MINGE (D-MN) AND STENHOLM (D-TX)

Both of these Members stressed the difficulty of passing any budget process reform legislation. Representative Stenholm recalled that he worked on budget process reform legislation with the Co-Chairman of the Committee for a Responsible Federal Budget, Tim Penny, before Tim left Congress. More recently, he and Representative Joe Barton have worked on these issues. Representative Stenholm reiterated his support for extending expenditure caps to cover entitlements as well as discretionary spending—providing that sequestration if necessary affects only those categories of entitlements that caused the spending overage.

Representative Minge reminded the group that many Democrats are very concerned about any change in PAYGO rules. He said Democrats seek to enforce revenue levels in the budget as well as direct spending. Mr. Minge emphasized that the Nussle-Cardin bill is a carefully crafted compromise, that more changes may yet need to be made before any bill can be written into law and asked the group to continue to work with them to enact good, strong budget process reforms.

CONCLUSION

Budget process reform is inevitable. The current rules impose politically unrealistic limitations on Congress and the President given large and growing surplus projections. Further, existing rules do little to inform debates about long-term challenges such as Social Security, Medicare and tax reform.

We hope that this project and this publication will prove helpful as Congress and the administration consider changes to the process this year and in the future.

BUDGET PROCESS REFORM PROPOSALS

	President's Budget Proposals	H.R. 853[i]	S. 92, S. 93 [ii] and S. Res 5	Barton-Stenholm Bills[iii]	Spratt Proposals and H. Res. 396	CURRENT LAW
Joint Budget Resolution	Yes	Yes, unless President vetoes in which case the House and Senate conference concurrent resolution.	No provision.	Yes	No provision in either	No
Budget Functions	21 including Social Security and Medicare.	Joint resolution contains defense and non-defense discretionary, direct spending, and other subsets of discretionary spending if deemed necessary. Budget Committee reports contain BA and Outlays for Budget Functions.	Define "major functional categories" as defense and non-defense discretionary spending and, if deemed necessary, other subsets of discretionary and direct spending.	No provision	No provision in either	Requires budget resolution to include BA and Outlays for major functional categories (currently 19).
Biennial Budget and Appropriations	No provision	No	Yes	Yes	Yes H. Res. 396 No Spratt proposal	No
Discretionary Caps	Yes but let separate transportation caps expire, and establish a new cap for Land Legacy. Caps should grow with inflation and accommodate special treatment for public housing.	Yes	Yes	Yes	No provision	Yes

BUDGET PROCESS REFORM PROPOSALS

Provision	President's Budget Proposals	H.R. 853[1]	S. 92, S. 93 [2] and S. Res 5	Barton-Stenholm Bills[3]	Spratt Proposals	CURRENT LAW
Lock-Box for Discretionary Savings	No provision	Yes	No	Yes	No provision	No
Emergency Provisions		Narrows definition, creates direct and discretionary reserve funds, Budget Committee Chairmen determine whether emergency satisfies definition.	Narrows definition and creates point of order against legislation that does not satisfy new definition. Point of order can be waived by majority vote.	Tightens definition. President cannot unilaterally waive State Match or waive repayment of loans for State match. Creates reserve fund and rules for use of reserve funds.	No provision	Big loophole in current law. Emergency is anything President and Congress agree to label emergency.
Automatic CR	On-Budget surplus not subject to PAYGO	At previous year's level.	Lower of prior year enacted. President's request, or annualized rate in most recently enacted CR.	95% of previous year.	No provision	No
PAYGO	Yes	Does not apply to on-budget surpluses.	Does not apply to on-budget surplus.	Does not apply to on-budget surpluses.	No provision	Applies to on-budget and off-budget surpluses.
Protect Social Security	No provision	Yes	Yes	Yes	No provision	Yes
Baselines	Current Services, i.e., current year Plus inflation and other adjustments to hold program levels constant.	Spending caps or last year's level.	No provision	Caps or last year's level.	No provision	Projections of current policy with and without inflation and other adjustments to hold program levels constant.

BUDGET PROCESS REFORM PROPOSALS

Provision	President's Budget Proposals	H.R. 853[1]	S. 92, S. 93 [2] and S. Res 5	Barton-Stenholm Bills[3]	Spratt Proposals H.Res. 396	CURRENT LAW
Accruals	Yes with more time to develop a satisfactory framework for moving insurance to an accrual basis.	For insurance programs, excluding social insurance, retirement and medical insurance programs.	No provision	No provision	No provision	No
Entitlement offsets for discretionary spending	Yes	Yes	No provision	No provision	No provision	No
Indefinite Spending	No provision	Prohibits indefinite authorizations.	No provision	No provision	No provision	No provision
Justification for direct spending	No provision	Required in President's Budget and House Committee Reports.	No provision	No provision	No provision	No provision
10-Year CBO Estimates	Yes	Yes	No provision.	No provision.	No provision	CBO provides 5-year estimates and has been providing 10-year estimates in recent years.
Enhanced rescission	No provision	No provision	No provision.	Yes	Yes Spratt H. Res 396 No provision	No

[i] H.R. 853, the *Comprehensive Budget Process Reform Act of 1999. Introduced by Representatives Nussel (R IA) and Cardin (D MD), reported from the House Budget Committee.*
[ii] Legislation introduced by Senator Pete V. Domenici, Chairman of the Senate Budget Committee.
[iii] H.R, 2599 (1995), H.R., 4142 (1996), H.R. 2003 (1997). Representative Minge (D MN) was the principle Democratic co-sponsor of H.R. 2003.

ENDNOTES

1. These are consensus views of our Board of Directors but do not necessarily represent the views of all directors on all issues. Neither do the recommendations necessarily reflect positions of the "Big 5" accounting firms that co-sponsored this project. For balance, we include with a fuller explication of the Committee's recommendations at the end of this report, the views of one of our Directors, Robert Reischauer. Dr, Reischauer disagrees with many of the Board's consensus recommendations.

2. "Discretionary spending" comprises programs, projects and activities subject to annual appropriations.

3. "Direct Spending" includes entitlements and other mandatory spending.

4. Pay-As-You-Go" or "PAYGO" rules require revenue increases or reductions in direct spending to offset new legislation that would reduce revenues or increase direct spending.

5. §301 of the Act spells out (in subsection (a) "Content of concurrent Resolution on the Budget"; and in subsection (b) "Additional Matters in Concurrent Resolution". §(b) (4), sometimes referred to as the "elastic clause", says, "set forth such other matters and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act."

6. The Budget and Economic Outlook, Fiscal Years 2001-2010. January 2000, Congressional Budget Office.

7. Statistical Abstract of the United States, The National Data Book, U.S. Department of Commerce, Economics and Statistics Administration, Bureau of the Census.

8. The Budget Enforcement act, Title XIII of the Omnibus Budget Reconciliation Act of 1990, amended as part of reconciliation bills in 1993 and 1997.

Chairman NUSSLE. Well, thank you very much.

With that, the hearing is adjourned.

[Whereupon, at 1:30 p.m. the committee was adjourned.]

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